COVERAGE AND FINANCE ISSUES IN THE UNEMPLOYMENT INSURANCE SYSTEM

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

FEBRUARY 20, 1991

Serial 102-7

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

42-502 WASHINGTON : 1991

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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COVERAGE AND FINANCE ISSUES IN THE UNEMPLOYMENT INSURANCE SYSTEM

WEDNESDAY, FEBRUARY 20, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room B-318, Rayburn House Office Building, Hon. Thomas J. Downey (acting chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, FEBRUARY 1, 1991

PRESS RELEASE #3
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE THOMAS J. DOWNEY (D., N.Y.), ACTING CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON COVERAGE AND FINANCE ISSUES IN THE UNEMPLOYMENT INSURANCE SYSTEM

The Honorable Thomas J. Downey (D., N.Y.), Acting Chairman, Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, today announced the Subcommittee has scheduled the second in a series of hearings on unemployment insurance (UI). The hearing, which will address coverage and financing issues, will be held on Wednesday, February 20, 1991, at 10:00 a.m. in room B-318 Rayburn House Office Building.

The counter-cyclical effectiveness of the unemployment insurance (UI) system has been damaged severely over the last 20 years. In response to the inability to accumulate enough reserves in good times, many States, and the Federal Government, have resorted to counterproductive policies -- benefit cuts or freezes and tax hikes during periods of high unemployment. Now that the economy appears to have entered another recession, this downward trend could accelerate as some State UI programs become insolvent again. With only about two out of 5 unemployed persons currently receiving UI, the situation looks bleak for many unemployed workers.

This hearing will assess the damage done to the UI system over the last 20 years and elicit proposals for reform. The Subcommittee hopes to hear answers to these questions: How can we restore some of the UI system's previous counter-cyclical effectiveness? How can we promote solvency without reducing counter-cyclical effectiveness? How can we help some uninsured workers to receive unemployment benefits?

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Testimony at the hearing will be taken from public witnesses. Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler or Diane Kirkland [(202) 225-1721] no later than the close of business, Wednesday, February 13, 1991. The telephone request must be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee [(202) 225-1025].

It is urged that persons and organizations having a common position make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearings. **(See formatting requirements below.)** This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

(MORE)

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear are required to submit 100 copies of their prepared statements to the Subcommittee office, room B-317 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons wishing to submit written statements for the printed record of the hearings should submit at least six (6) copies of their statements by close of business, Wednesday, March 6, 1991, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public, they may deliver 100 additional copies for this purpose to the Subcommittee office, room B-317 Rayburn House Office Building, on or before the day of the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Acting Chairman DOWNEY. The subcommittee will come to order.

Today we will hold the second in a series of hearings on unemployment insurance. This hearing will address issues related to program financing and eligibility for benefits.

The remaining two hearings will deal with long-term unemployment and reemployment assistance.

In our first hearing, we learned that the unemployment insurance system is about 20 percent less effective at countering recessions than it was in the past. Some States did not build up enough reserves in good times to cover their costs in bad times.

Eventually, they ran out of funds and had to borrow from the Federal Government. In the aftermath of State financial problems, benefits were cut and taxes were raised, further damaging the countercyclical effectiveness of the program.

It seems that States are in what the witness from the National Conference of State Legislatures called, "a race to the bottom."

They compete to attract business into their States by keeping reserves low, taxes low, and benefits low. In the end, this is self-destructive. Such interstate competition reduces the countercyclical effectiveness of State programs and recessions only grow worse.

I look forward to this hearing with the hope that we can understand how financing problems have damaged the countercyclical effectiveness of the unemployment insurance system, and what Congress could do to alleviate these problems.

We are hearing more about workers who can't get benefits or who have run out of their benefits. These workers do not want more talk—they want action.

Let us begin.

We are delighted to have our colleague from Indiana, Congresswoman Jill Long, to be our lead of witnesses.

Jill, it is a pleasure to have you. If you would begin.

Your full statement will be entered into the record.

Before I recognize you, Jill, let me see if Mr. Levin, a new member of the subcommittee, has any comments?

Sandy.

Mr. LEVIN. Thank you.

If you would be willing to hold for just a minute, I would like to quickly read an opening statement, Mr. Chairman.

Thank you again for holding these hearings on our unemployment insurance program. Every day brings more bad news about the condition of our unemployment insurance program, and I look forward to hearing the ideas of our witnesses have for bringing this critical program back to health.

But one critical problem must be addressed before we can move on to a much-needed overhaul of the unemployment insurance program: The shortfalls in administrative funding that plague the unemployment insurance system today.

I am sure many of my colleagues had a chance over the recess to witness firsthand the anguish and frustration of workers who have had to wait endlessly for their benefit checks to arrive.

The unemployed workers I have spoken to don't understand why a program specifically designed to provide replacement income during a recession is failing them. What they do understand all too clearly are the consequences of that broken promise: Time spent idling in unemployment lines, bills unpaid, job searches delayed.

Quite frankly, Mr. Chairman, I share their bewilderment. These workers have run afoul of a unemployment insurance program in distress, unequipped to handle the increases in caseload. And why is that? Not because of failure to provide the necessary resources, there is more than enough money in the Unemployment Insurance Trust Fund account for administrative services.

The real problem is that the integrity of our unemployment insurance program is in jeopardy because the Federal Government has shirked its responsibility to provide administrative funding for the program. We have shortchanged the States on administrative funding in order to make the deficit look smaller.

This is federalism, whether old or new, turned on its head.

It is simply unfair to play budget politics with the welfare of the American worker. That is why Congressman Don Pease and I will introduce legislation next week to solve once and for all the problem of administrative funding shortfalls.

Our proposal changes the budgetary treatment of unemployment insurance administrative funding for unemployment insurance

from a discretionary appropriation to an appropriated entitlement, or mandatory spending program.

The proposal also establishes a contingency reserve fund to ensure that States are quickly and effectively compensated for any unanticipated increases in unemployment.

Unemployment insurance is the only State administered entitled program not to have mandatory administrative financing. It makes no sense that food stamp recipients and Medicaid beneficiaries receive their checks on time but unemployed workers must stand in line or wait for the postman week after week because the Federal Government refuses to provide adequate funding.

It is especially outrageous because unemployment insurance is the only major State-administered entitlement funded through a tax collected specifically for State administrative needs.

I hope my colleagues will carefully consider our proposal. I think it takes the steps necessary to put the word "insurance" back in "unemployment insurance."

I look forward to working with you, Mr. Chairman, and members of the subcommittee, and anyone else who is interested, to fix this problem for good.

Then we can get on with the important task of reforming our unemployment insurance program to make it more responsive to the needs of our workers and our businesses.

Acting Chairman DOWNEY. Thank you, Mr. Levin.

Rod, do you want to say anything?

Mr. CHANDLER. No, thank you.

Acting Chairman DOWNEY. Jill, if you would begin.

STATEMENT OF HON. JILL L. LONG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Ms. JILL LONG. Thank you, Mr. Chairman.

I want to commend you for holding these hearings. I think they highlight a problem that we need to address.

The unemployment program is not working as well as it should, which is especially troubling since unemployment is on the rise. The subcommittee should also be recognized for its foresight and work last year when members labored without the benefit of the public attention that this issue now commands.

I would like to draw the subcommittee's attention to a particular concern, and that is the way we budget the unemployment program.

Recently, the administration of the unemployment program has been underfunded to the point where the delivery of benefits has been delayed for weeks. Moreover, offices have been closed and long lines have been formed at remaining locations.

Obviously, this can make access to the program very difficult for beneficiaries. For Indiana in particular, 41 offices were closed last year and, in this year, individuals are still facing benefit delays.

Even in times of fiscal austerity this de facto policy makes no sense. The irony is compounded by the fact that money has been set aside in the Unemployment Trust Fund to pay for the administration of the program—money brought in by a special tax dedicated to this program, the FUTA tax.

These earmarked funds simply have not been appropriated. It is my belief that the budget rules currently used by Congress put pressure on legislators to underfund the program, and these rules do so without good cause.

In addition, these same rules count the net income of the Unemployment Trust Fund when calculating the Gramm-Rudman-Hollings budget deficit. Given that the revenue flow in the fund derives from State taxes and the FUTA tax, counting trust fund revenue in the deficit calculation distorts the perception of the government's progress toward controlling spending.

While we may need to make some substantive reforms to the unemployment insurance program, I believe that straightening out the current budgeting scheme is a good first step.

Quickly, I want to summarize the Unemployment Insurance Program Budgeting Reform Act, H.R. 888, which I introduced to realize this end.

First, the bill would take the unemployment program off-budget. Specifically, the receipts and disbursements of the Unemployment Trust Fund would not be counted as new budget authority, outlays, receipts, or deficit, or surplus for purposes of the Balanced Budget and Emergency Deficit Control Act.

There is precedent for being off-budget, and, given the independent and self-financing nature of the trust fund, I believe that this move makes sense within the current framework of Federal budgeting.

Second, the bill would exempt the State unemployment insurance and employment services operations account from sequestration. While sequesters have not been as problematic as appropriation shortfalls, they just make the problem worse, and the so-called savings that result are just paper savings.

Mr. Chairman and members of the subcommittee, I believe that this legislation is a reasonable approach to addressing the budgeting snafus that have recently plagued the unemployment program. In addition, I believe, that this bill would add integrity to the budget process by making clearer just what our progress has been in controlling Government spending by removing the trust fund from the Gramm-Rudman-Hollings deficit calculations.

Congress and our country have many challenges before us. We should not be wasting precious time with stop-gap solutions to a fundamentally flawed unemployment budgeting process.

Even more importantly, recently unemployed American workers should not have to bear the burden of the Government's irresponsibility. Let's fix the problem right.

Thank you.

Acting Chairman DOWNEY. Thank you.

Mr. Shaw.

Mr. SHAW. Mr. Chairman, recognizing that $1 in every $5 in outlays right now is off-budget, I would like you to comment on this. I am not coming from a hostile direction, because I see a certain amount of thought and benefit in what you are talking about and what you are trying to do.

For too long we have paid for programs by pumping money into a trust fund, and then counting it against the deficit. This is false

accounting. I know we are inviting trouble with the highway fund and various other funds.

Finally, we have gotten Social Security where it is coming off the budget. It is wrong to try to balance a budget by counting trust funds.

Would you comment on the number of programs now and the tax dollars that are off-budget?

Ms. JILL LONG. Some programs have been taken off-budget for some very legitimate reasons. Some have been taken or for what I would consider not so legitimate reasons.

Some programs are taken off-budget to make it easier to meet the Gramm-Rudman-Hollings targets.

In my judgment, with my background in business, I would say it is phony accounting. This has been put on budget for an equally illogical reason. That is to make the budget look better.

By taking it off-budget, we are actually becoming more responsible. We are not taking it off-budget in an attempt to make deficit calculations to look better than they are.

It would be taken off-budget because it should be treated as a separate account because there is a separate tax that goes into the trust fund. This is the kind of thing where if taken off-budget it is a move in the right direction.

Whereas sometimes when things are taken off-budget it is a move in what I consider to be the wrong direction.

Mr. SHAW. Maybe what Congress should be looking at, and it wouldn't be this committee, but perhaps another committee, is the wisdom of taking all these trust funds off-budget so that we get into some truth in accounting with regard to the Federal Government.

I have always likened our including trust funds in the budget to being like a lawyer including his trust account in his financial statement when he goes to the bank for a loan.

These funds are not his. At least in theory ours are not ours.

They are committed to a particular use, but we are spending the money elsewhere, which makes it a little bit of a sham.

Thank you for excellent testimony.

Acting Chairman DOWNEY. One of the things that concerns me about your bill, you say in addition to the off-budget questions would be the—you would exempt from sequestration the appropriations from the trust fund for administration of the unemployment insurance and the employment services. The net effect of that would be other programs would be subject to sequestration, other discretionary programs. This would not.

Conceivably, you have a situation you might be able to have the administration of an unemployment insurance program, and a lot of programs that would be administered would be subject to reduction.

I would ask you to think about something else which we will be looking at. That is to make the administrative money in the line of an entitlement, as opposed to a discretionary, annual discretionary program. That would have the benefit of freeing up some money for the appropriators to do other things with it and impose at least for the States a sense that they are going to get a certain amount of money.

My guess is it is very unlikely that we are going to do this, take this and make it exempt from sequestration. We need to do something else so that you are in a position in your State not to have 41 offices close. We are very, very sensitive to that.

Mr. Levin has been very vocal in his concerns. I think it represents my view as well on this issue that we have to do something. We are just limited here as to what we can do.

I offer that for you to consider as an alternative in terms of how we feel with administrative funding.

Ms. JILL LONG. I think there are a number of proposals that are coming forth that have merit. I would hope that the committee and the Congress would ultimately put together a package that is going to be in the best interest of this program and also in the best interest of the taxpayers of this country.

Acting Chairman DOWNEY. Sandy.

Mr. LEVIN. Thank you very much, Mr. Chairman.

I really just want to echo your words.

I think that Congresswoman Jill Long has done us and the country a service by again bringing this issue to the attention of the subcommittee. It is hard, as you say, to tell someone who has worked, and worked, and worked and is laid off through no fault of their own, that they wait 5 weeks for a check. That is just antithetical to the work ethic and to the existence of an unemployment insurance program.

I tried to get through to the Madison Heights Office in Michigan for 4 hours one Friday. The lines were just so busy.

I share your concern that the approach that you suggest, Jill, is not likely to be feasible. To take all of the unemployment funds off-budget increases the deficit $7, $8 billion. I am not sure we are going to do that.

One thing we can do, which is very consistent with the thrust of your proposal, is to make mandatory the administrative services portion of it as is true of the administrative services account for the programs I mentioned. We can do that, and it has much less an impact on the budget.

So thank you very, very much your testimony.

I hope all of us on both sides of the aisle can work together so that when an unemployed woman or man calls up and says, "I can't wait 5 weeks for my check that I have worked for and the employer for whom I worked paid taxes," we have some answers.

Thank you very much.

Ms. JILL LONG. Thank you very much.

Acting Chairman DOWNEY. Jill, thank you for some very excellent and thought-provoking testimony.

Ms. JILL LONG. Thank you, Tom.

Mr. SHAW. Mr. Chairman, during the opening Statements, I was not here. I would ask at this time for unanimous consent to place my opening statement in the record.

Acting Chairman DOWNEY. Without objection, so ordered.

[The prepared statement follows:]

OPENING STATEMENT BY HON. E. CLAY SHAW, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman:

Once again, I am glad to join you in welcoming our guests to this series of hearings on unemployment and the Unemployment Insurance (UI) program.

Given the likelihood that Members on both sides of the aisle are likely to introduce UI legislation this session, it's important for us to learn as much as we can about the subject. It also gives us an opportunity to explore what we can do about issues such as UI administrative funding in the context of the new budget rules.

Today we have an especially interesting group of witnesses to provide us with testimony on the condition of the trust funds, on taking UI off budget, on long-term unemployment, on the gap between the number of unemployed workers and the relatively small fraction receiving benefits, and on a host of other important issues.

I thank all the witnesses for taking their time to try to make us a little smarter so we can make wise decisions on the UI program.

Acting Chairman DOWNEY. The subcommittee will—I am sorry—we almost forgot Mr. Thompson, if you would come up, please.

STATEMENT OF LAWRENCE H. THOMPSON, ASSISTANT COMPTROLLER GENERAL, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY SIGURD NILSEN

Mr. THOMPSON. Mr. Chairman, I have a longer statement. If you would be so kind as to put that in the record, I will summarize it.

I am accompanied by Sigurd Nilsen, who is setting up some charts.

I will just proceed.

I am pleased to be here today to share with you some results of our analysis over the last few years of issues facing the Federal-State unemployment insurance system.

Specifically, I want to discuss first the general trend in the financial health of the State trust funds over the last 20 years, particularly the trend away from operating on a forward-funded basis.

I want to talk about the potential effect of the current recession on the Federal and State unemployment insurance accounts. I also want to talk about the actions taken by States during the 1980s, in response to recessionary conditions and the new Federal loan policies at that time.

I have three basic points to make today. First, there has been a long-term decline in the adequacy of State trust fund reserves. This decline led to massive borrowing by insolvent State trust funds in the 1980s to pay benefits.

Second, in an effort to regain solvency, States raised employer taxes and limited the growth in expenditures by reducing benefit duration and tightening eligibility requirements.

These steps diminished the effectiveness of unemployment insurance as a countercyclical economic stabilizer and undermined its effectiveness as a source of income replacement for the unemployed.

Third, if the current recession lasts longer, it is likely to result in many States becoming insolvent and having to rely on Federal loans to pay benefits. This could result in State actions similar to those taken in the 1980s, further diminishing the program's effectiveness.

The primary purposes of the unemployment insurance system are to provide the unemployed with temporary sources of income, as well as to act as an economic stimulus during periods of decline.

It is our view that, in order to avoid further erosion of these purposes, the principle of forward funding needs to be adhered to more fully, meaning that States need to build and maintain adequate trust fund reserves during prosperous times.

The unemployment insurance program was originally operated on the basis that benefit liabilities would be forward funded. That is tax rates and benefit levels were set so that the system accumulated reserves during periods of rising economic activity, in order to have a reserve sufficient to cover benefit payments during periods of declining activity.

This approach was maintained during the first three decades following the program's inception. Since that time, States' actions have led to a gradual erosion of the forward funding principle.

Many States have failed to maintain sufficient reserves, relying instead on Federal loans to continue paying benefits during economic downturns. During the 1950s and 1960s the States borrowed less than $300 million.

During the 1970s, this increased to $5.6 billion and in the 1980s, to $24.4 billion. We can trace this evolution by looking at the trend in the high-cost multiple.

The chart over here, at my right, shows the high-cost multiple. The high-cost multiple is a commonly used indicator of how long recession level benefits could be paid from the current reserve.

The Interstate Conference of Employment Security Agencies some time ago endorsed a standard of 1.5 as being indicative of an adequate reserve. One point five means that a State would have in its trust fund, reserves sufficient to pay recession level benefits for 1½ years.

The chart shows the high-cost multiple for the entire unemployment insurance system, all 53 State programs taken together. It shows the pattern of decline. Between 1955 and 1969, the high-cost multiple averaged about 2.1, indicates a strong financial position, well over the 1.5 standard for adequacy.

You see during the 1970s, it fell steadily. It actually was negative in 1982 and 1983.

In the recovery of the late 1980s, it recovered to where it has reached a 0.91 level as of the end of fiscal year 1990. That means as we go into the current recession, we had on hand only enough reserves to pay 11 months of recession-level benefits.

We started the recession with reserves in the aggregate below the level that has been set as an adequate reserve.

My other chart on my left shows the same trend, but it expresses it in a different way.

In that chart, the solid line is the number of States that have maintained an adequate reserve using this 1.5 high-cost multiple standard.

The dashed line is the number of States whose funds have become insolvent and have had to borrow from the Federal Treasury in order to maintain benefit payments.

You can see clearly the trend toward fewer States having adequate reserves and more and more States relying on loans in order to finance their unemployment insurance benefits.

In 1955, 49 States had a high-cost multiple of 1.5 or higher. No State was insolvent.

By 1983, no State was at the 1.5 standard and 23 States had become insolvent.

The financial status of the system has improved since 1985. However, in our opinion, trust fund reserves continue to be inadequate to handle a recession.

At the end of fiscal year 1990, only 10 of the 53 unemployment insurance programs had a high-cost multiple above the 1.5 standard.

Several factors have been responsible for this decline in adequacy. High unemployment rates during the 1970s and into the early 1980s, increased benefit expenditures, resulting from the creation of the extended benefits program that was not funded by additional revenues. And regional competition for new investment and jobs may be encouraging States to keep their unemployment insurance taxes as low as possible.

Thus, at the State level, adequate reserves tend not to be accumulated in prosperous periods even though they do get their loans paid off when the economy is expanding.

Mr. Chairman, using the Office of Management and Budget's assumptions, the Labor Department projects a total of 10 States will need to borrow funds from the Federal loan account during fiscal year 1991 to 1995. Nine of these States will become insolvent at some point during that period, under those assumptions.

Those projections assume a mild recession of a short duration. We hope that those are correct assumptions and projections.

The actual outcome is uncertain, and the financial status of the system is quite sensitive to economic conditions. For example, we asked the Labor Department to tell us what the effect of a somewhat longer and deeper recession would be. This simulation resulted in a recession in which 12 or more State programs could become insolvent between 1991 and 1995, and where loans to those State funds that do become insolvent reach the point where they exceed the capacity of the Federal loan account.

The Congress enacted several policy changes in the late 1970s and early 1980s that made it more expensive for States to deplete their fund balances and borrow from the Federal Government. These actions included charging States interest on Federal loans if they were not repaid in the same fiscal year.

They also included enforcing a penalty tax on employers in States with delinquent loans, and providing Federal loan interest deferrals, discounted loan interest rates, and partial freezes on employee penalty taxes if the States made progress toward restoring trust fund solvency by cutting benefits and increasing taxes.

States responded by paying off their loans through actions that increased revenues and reduced outlays. Some of these actions decreased the proportion of unemployed population receiving benefits by reducing the duration of benefits, tightening eligibility standards, and increasing penalties for benefit disqualification.

In 1975, over 50 percent of the total unemployed population received benefits, whereas during the past 10 years an average of 33 percent received benefits. A recent study estimated the changes in the unemployment insurance laws and administrative practices accounted for 30 to 40 percent of this decline in the proportion of the unemployed who received benefits.

Given the inadequate reserve levels in many States, the current recession could result in another round of State benefit cuts and employer tax increases as the States work to expedite loan repayments. While the impact on the Federal budget deficit would be favorable, it is uncertain this would be the most desirable public policy.

If instituted before the economic recovery begins, payroll tax increases and benefit reductions may delay recovery by discouraging increased hiring and reducing consumer spending. Moreover, more benefit cuts could further reduce benefit adequacy.

The sum total of all this would be a reduction in the unemployment insurance program's ability to carry out the intended purpose of helping Americans who have lost their jobs through no fault of their own.

The current unemployment insurance policies encourage State trust fund solvency but not trust fund adequacy. The charging of interest on loans encourages States to get out of debt, but no policies encourage them to build reserves to handle future recessions.

Once insolvent States pay off their loans, employer tax rates are frequently reduced and reserve accumulation is slowed before reserves reach levels adequate to restore the forward-funding principle to the unemployment insurance program.

The key issue, therefore, facing the unemployment insurance system is how to ensure that States use periods of economic expansion to build and maintain adequate reserves while providing adequate benefits to unemployed workers.

Mr. Chairman, this ends my prepared remarks.

I would be happy to address any questions you may have at this time.

[The prepared statement follows:]

STATEMENT OF LAWRENCE H. THOMPSON, ASSISTANT COMPTROLLER GENERAL, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to share with you some results from GAO's analysis of issues facing the federal-state Unemployment Insurance (UI) system. Specifically, I will discuss (1) the general trend in the financial health of state trust funds over the last 20 years, particularly the trend away from operating on a forward funded basis; (2) the actions taken by states during the 1980s in response to recessionary conditions and new federal loan policies; and (3) the potential effect of the current recession on the federal and state UI accounts. In summary:

-- There has been a long-term decline in the adequacy of state trust fund reserves.

-- This decline led to massive borrowing by insolvent state trust funds in the 1980s to pay benefits.

-- In an effort to regain solvency, states raised employer taxes and limited the growth in expenditures by reducing benefit duration and tightening eligibility requirements. These steps greatly diminished the effectiveness of unemployment insurance as a countercyclical economic stabilizer and undermined its effectiveness as a source of income replacement for the unemployed.

-- If the current recession lasts longer or is more severe than anticipated, it is likely to again result in many states becoming insolvent and having to rely on federal loans to pay benefits. This, in turn, could result in state actions similar to those taken in the 1980s, further diminishing the program's effectiveness.

The primary purposes of the UI system are to provide the unemployed with a temporary source of income as well as to act as an economic stimulus during periods of economic decline. It is our view that, in order to avoid further erosion of these purposes, the principle of forward funding needs to be adhered to more fully, meaning that states need to build and maintain adequate trust fund reserves during prosperous times. Our previous reports[1] discussed similar issues in much greater detail. Before elaborating on these points, I would like to provide some background on the UI system.

BACKGROUND

The UI system is the federal government's major means of providing income maintenance assistance to the unemployed. The system's primary objectives are to (1) provide individuals with temporary and partial wage replacement when they have lost their jobs and (2) assist in the countercyclical stabilization of the national economy during economic downturns by maintaining the purchasing power of the unemployed. The UI system is operated as a partnership between the federal government and the states and provides for the payment of regular benefits as well as extended benefits during periods of high unemployment. The federal government levies a payroll tax on employers and uses the proceeds to finance both state and federal UI program administration, pay one-half of the extended benefits program, and create a fund from which loans can be made to states with insolvent UI accounts.

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[1] Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55, Sept. 26, 1988) and Unemployment Insurance: Trust Fund Reserves Inadequate to Meet Recession Needs (GAO/HRD 90-124, May 31, 1990).

Each state operates its own UI program, levying and collecting its own payroll tax and, within certain limits, determining the level of benefits and the conditions for benefit eligibility. As a result, tax rates, benefit levels, and trust fund balances vary across states, reflecting variations in program decisions and economic conditions.

The gross federal tax rate is 6.2 percent on the first $7,000 paid annually by employers to each employee. However, if a state meets certain federal requirements and has no delinquent federal loans, its employers are eligible for up to a 5.4-percent credit, making the net federal tax rate 0.8 percent. To receive the maximum federal tax credit, states must establish a taxable wage base for state UI taxes at least equal to the federal taxable wage base--currently $7,000. All states have done this, and 36 states have adopted wage bases above the federally mandated level, ranging from $7,100 in Connecticut to $21,300 in Alaska.

The net federal tax rate of 0.8 percent is made up of a permanent tax of 0.6 percent and a temporary surtax of 0.2 percent. The surtax was added in 1976 to help the system repay loans from the federal general fund. The surtax was extended in 1987 and again in 1990; it is scheduled to expire at the end of 1995.

FORWARD FUNDING PRINCIPLE OF UI SYSTEM HAS BEEN ERODED

The UI program was originally operated on the basis that benefit liabilities would be forward funded. That is, tax rates and benefit levels were set so that the system accumulated reserves during periods of rising economic activity in order to have a reserve sufficient to cover benefit payments during periods of declining activity. This approach was maintained during the first three decades following the program's inception in 1935. Since that time, however, states' actions have led to a gradual erosion of the forward funding principle. Many states have failed to maintain sufficient reserves, relying instead on federal loans to continue paying benefits during economic downturns.

In 1944, the Congress first established a loan account to provide loans to states with trust fund balances below a specified level, but this authorization was allowed to expire in 1952 because no state ever became eligible. In 1954, new legislation was enacted to again make loans available to the states and this authorization remains in effect today. Initially, federal loans were interest free, but in 1981 the Congress enacted legislation that established an interest charge of up to 10 percent on loans not repaid within the fiscal year they were borrowed.

While federal loan authority provided the advantage of assuring that benefits would continue to be paid even if state trust funds were depleted, it eventually led to the undercutting of state fiscal discipline. Little use was made of the loan account until the 1970s. Before that time, only three state funds ever received federal loans, and only one fund was ever insolvent at the end of a calendar year. Since then, however, state reliance on federal loans to sustain benefits has increased dramatically. For example, during the 1950s and 1960s, the states borrowed less than $300 million from the federal loan account. During the 1970s this increased to $5.6 billion and in the 1980s to $24.2 billion.

Another way to trace the evolution of increased state reliance on federal loans and the departure from a forward funded program is illustrated by the trend in the high-cost multiple.

The high-cost multiple is the most commonly used indicator of how long recession-level benefits could be paid from current reserve balances. The Interstate Conference of Employment Security Agencies has endorsed a standard high-cost multiple of 1.5 as being indicative of reserve adequacy. This means that trust fund reserves should be sufficient to pay recession-level benefits for 1-1/2 years. Others have endorsed a lower standard of 1.0, meaning reserves equal to a year of recession-level benefits.

The high-cost multiple of the overall UI system (all 53 programs taken together) has declined steadily since the mid-1950s (see fig. 1). Between 1955 and 1969, the high-cost multiple averaged 2.1, indicating a strong financial position, but fell rather steadily during the 1970s and was actually negative in 1982 and 1983. It has since increased to 0.91 as of September 30, 1990, meaning that, on average, reserves were sufficient to pay about 11 months of recession-level benefits.

As the high-cost multiple for the overall UI system has declined, so too has the number of states that are maintaining adequate trust fund reserves. And the failure to maintain adequate reserves has increased the frequency of funds becoming insolvent during periods of high benefit expenditures (see fig. 2). In 1955, 49 states had a high-cost multiple of 1.5 or higher and no state was insolvent at the end of the year. Although the number of states maintaining similar high-cost multiples varied during the next 15 years, at least half were at or above the 1.5 level and few if any experienced insolvency. Between 1970 and 1983, the number of states at the 1.5 standard has steadily declined to none in 1983 and, at the same time, 23 states were insolvent.

Since 1985, as a result of the longest post-war period of economic expansion, the financial status of the UI system has improved. At the end of fiscal year 1990, the federal accounts totalled $11.7 billion and the state accounts $39.6 billion. However, in our opinion, UI trust fund reserves continue to be inadequate to handle a recession. At the end of fiscal year 1990, 10 of the 53 UI programs had a high cost multiple at or above the 1.5 standard, compared with 39 states in 1969. Using a less stringent standard of 1.0 would only add an additional 16 states to the list of those with sufficient reserves. In contrast, virtually all state trust funds surpassed the 1.0 standard in 1969.

Several factors have caused the decline in reserve adequacy and the growth in trust fund insolvency. These include the high unemployment rates generated by three major recessions during the last 20 years and increases in benefit expenditures resulting from the creation of the extended benefits program that was not funded by additional state revenues. In addition, the regional competition for new investment and jobs may be encouraging states to keep UI taxes as low as possible, as a way to improve a state's general business climate. Thus, adequate reserves are not accumulated, even when loans are paid off and the economy is expanding.

THE CURRENT OUTLOOK

In testimony before this Subcommittee on February 6, 1991, the Director, Unemployment Insurance Service, Department of Labor, stated that the balances of the federal UI accounts are currently sufficient to handle administrative costs for projected workloads, extended benefit payments, and state trust fund loan requirements. Using the Office of Management and Budget

assumptions, the Labor Department's state loan model[2] projects that a total of 10 states will need to borrow funds from the federal loan account during fiscal years 1991-1995. Nine of these states will become insolvent at some point in time during that period.

The Administration's projections assume a mild recession of short duration. We hope that they are correct. But the actual outcome is uncertain at this time and the financial status of the system is quite sensitive to the economic conditions. To illustrate, we asked Labor to use their model to make projections based on different economic assumptions. Specifically, we asked them to assume a longer and deeper recession by projecting the unemployment rate peak at 9 percent rather than 6.9 percent. This simulation showed that instead of 9, 12 state programs could become insolvent at some time between 1991 and 1995, necessitating borrowing from the federal loan account of about $12.9 billion (see table 1). At the end of fiscal year 1995, these states would still owe about $10.4 billion using the more pessimistic assumptions as compared to $8.2 billion using the administration's.

The simulation also showed that the recession we assumed would cause loans to exceed the capacity of the federal loan account. Although the loan account had a balance of $2.2 billion at the start of 1991, it would need an advance of $1.3 billion from the general fund to cover state loans.

Table 1: Effect of Recession on UI Trust Fund Using GAO and OMB Assumptions (Fiscal Years 1991-95)

Dollars in billions	GAO	OMB
State borrowing	$12.9	$9.5
General fund advance to loan account	1.3	0
State loan balances, end of 1995	10.4	8.2
Net state UI balances, end of 1995	39.2	42.3
Insolvent States	12	9

IMPLICATIONS OF INADEQUATE TRUST FUND BALANCES

In the past, concern over increased borrowing has led the Congress to take action to move the system toward a positive total reserve balance. The Congress enacted several policy changes in the late 1970s and early 1980s that, in essence, made it more expensive for states to deplete their fund balances and borrow from the federal government. These actions included

-- charging states interest on federal loans if not repaid in the same fiscal year as borrowed;

-- enforcing a penalty tax on employers in states with delinquent loans; and

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[2]This model produces fiscal year estimates of aggregate trust fund balances, loans and repayments, loan balances, reduced federal UI tax credits, interest earnings, and interest paid. State-by-state estimates are also produced, but these are less reliable than the national estimates.

-- providing federal loan interest deferrals, discounted loan interest rates, and partial freezes on employer penalty taxes if states made progress toward restoring trust fund solvency by cutting benefit costs and increasing taxes.

In response to these policy changes, many states increased employers' UI taxes and substantially increased loan repayments. However, state actions also resulted in a decrease in the proportion of the unemployed population receiving benefits by reducing the duration of benefits, tightening eligibility standards, and increasing penalties for benefit disqualification.[3] For example, in 1975 over 50 percent of the total unemployed population received benefits, whereas during the past 10 years an average of 33 percent received benefits. We noted in a previous report[4] that:

-- since 1981, six of eight states that paid benefits for periods longer than 26 weeks, cut them back to the 26-week maximum used by other states;

-- 35 states increased the earnings level required for minimum weekly benefits, while 18 states changed their earnings distribution formula in such a way as to reduce the number of unemployed eligible for benefits; and

-- 19 states increased the disqualification penalties for claimants who quit work without good cause, 22 states increased penalties for claimants dismissed because of misconduct, and 20 states increased penalties for claimants who refused suitable work while unemployed.

A 1988 study,[5] prepared for the Department of Labor estimated that changes in state UI laws and administrative practices accounted for between 30 and 40 percent of the decline in the proportion of the unemployed receiving benefits between 1980 and 1986.

Given the inadequate reserve levels in many states, the current recession could result in another round of state benefit cuts and employer tax increases as the states work to expedite loan repayments. While the impact on the federal budget deficit would be favorable, it is uncertain this would be the most desirable public policy. If instituted before the economic recovery begins, payroll tax increases and benefit reductions may delay recovery by discouraging increased hiring and reducing consumer spending. Moreover, more benefit cuts could further reduce benefit adequacy. The sum total of all this would be a reduction in the UI program's ability to carry out its intended purpose of helping Americans who have lost their jobs through no fault of their own.

In conclusion, the current UI policies encourage state trust fund solvency but not trust fund adequacy. The charging of interest on loans encourages states to get out of debt, but no policies encourage them to build reserves to handle future recessions. Once insolvent states pay off their loans, employer

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[3]All states disqualify benefit claimants who quit their jobs without just cause, were fired for misconduct, or refused suitable employment. Penalties for claimant disqualification often specify a duration of benefit ineligibility and an additional earnings requirement for requalification.

[4]Unemployment Insurance: Trust Fund Reserves Inadequate(GAO/HRD-88-55, Sept. 26,1988).

[5]An Examination of Declining UI Claims During the 1980s: Draft Final Report(Mathematica Policy Research, Inc., May 1988).

tax rates are frequently reduced and reserve accumulation is slowed before reserves reach levels adequate to restore the forward funding principle to the Unemployment Insurance program. The key issue, therefore, facing the UI system is how to insure that states use periods of economic expansion to build and maintain adequate reserves while providing adequate benefits to unemployed workers.

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Mr. Chairman, that ends my prepared remarks. I will be happy to address any questions that you or other Members of the Subcommittee may have.

Figure 1

GAO Annual Aggregate High Cost Multiples (1955-1990)

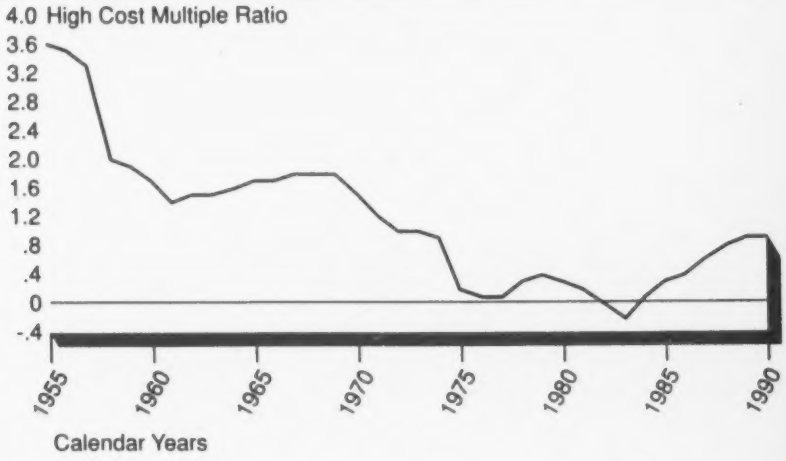
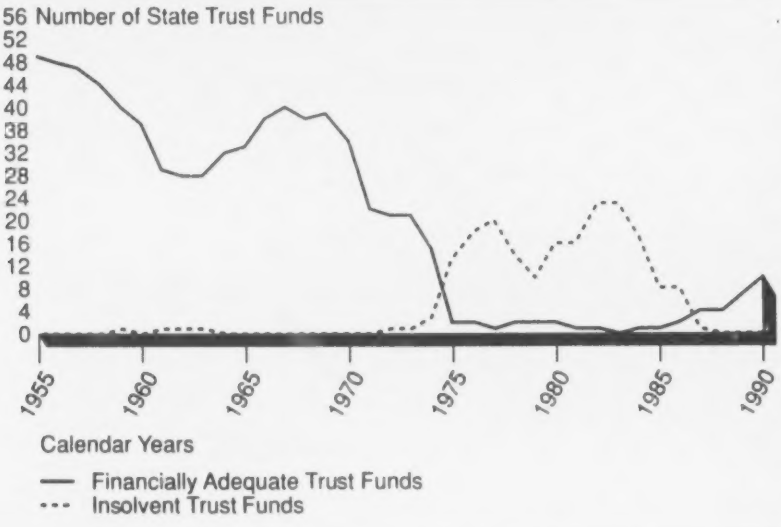


Figure 2

GAO Financial Condition of State UI Trust Funds (1955-1990)



ATTACHMENT I

ATTACHMENT I

QUARTERLY UNEMPLOYMENT RATES
UNDERLYING UI TRUST FUND SIMULATIONS

Fiscal Year	Quarter	OMB Assumptions	GAO Assumptions
1991	1	5.9	5.9
	2	6.8	6.8
	3	6.9	7.6
	4	6.8	8.3
1992	1	6.7	9.0
	2	6.7	8.7
	3	6.7	8.4
	4	6.7	7.9
1993	1	6.6	7.4
	2	6.5	6.9
	3	6.4	6.4
	4	6.2	6.2
1994	1	6.1	6.1
	2	6.0	6.0
	3	5.9	5.9
	4	5.9	5.9
1995	1	5.8	5.8
	2	5.7	5.7
	3	5.6	5.6
	4	5.4	5.4

Acting Chairman DOWNEY. Why don't we start with answering the question you raised for us.

What sort of incentive would there be for States to maintain adequate reserves while not reducing benefits?

What do you think we could do?

Mr. THOMPSON. You have worked out ways to encourage States to repay loans. Unfortunately, the trigger always is zero.

Once you get to zero balance, then all of those incentives fall out. I think you have to explore whether those kinds of incentives could operate until they get to a higher reserve balance so that they encourage States to build up reserves.

You also may have to start a debate about whether more rigorous Federal standards might be necessary in the area of what are the qualification requirements. That is pretty much left to the States right now, and they have become very adept at manipulating.

Acting Chairman DOWNEY. Let me ask you then, would it be fair to assume a carrot and stick approach to do this?

There might be some incentives, but I don't know what they would be offhand. We would welcome your advise on this. We could say to the States that we want you not only to repay the loan, and there are penalties if you don't, but we want you to maintain adequate balances, too.

Then we are also going to change, naturally, some of the eligibility requirements for unemployment insurance too, so you don't wind up doing some of the things that they have done in the past?

Would that be an effective course for us to follow?

Mr. THOMPSON. That would certainly be where I would start.

Acting Chairman DOWNEY. Given the fact that the States do not have adequate reserves and continue to borrow from the Federal Government, do you think the Federal Government has sufficient funds in its loan account to deal with this pending recession?

Mr. THOMPSON. Time will tell on that. The balance in the loan account looks like it is enough, if the recession runs the course implied by the OMB assumptions.

It doesn't have to be a whole lot worse than that for the Federal loan account to be exhausted.

I have to point out, of course, that doesn't mean the benefits stop being paid. The Federal loan account can get an advance from the Treasury if it runs out of money. So I don't want anyone to think the benefits are going to be in jeopardy at all.

At any rate, it is not clear whether there is enough money in the Federal loan account right now.

Acting Chairman DOWNEY. The loan account is supposed to be what? We are $9 billion short of the $12 billion ceiling; am I right?

Is the ceiling at an adequate level from your perspective?

Mr. THOMPSON. I have to say that in the simulations that we have done on the effect of recessions, we have never triggered borrowing that approached the level of the ceilings.

Acting Chairman DOWNEY. You think it is adequate?

Mr. THOMPSON. The ceiling looks like it is more than adequate.

Acting Chairman DOWNEY. What about the ceilings in the administrative and extended benefit accounts, are they adequate?

Mr. THOMPSON. The administrative account is supposed to be a flow-through account. I think that it has an adequate ceiling.

The way the extended-benefit program is running now, there is a lot of money in that account. The triggers have been increased over the years.

They operate off of insured unemployment, which is drifting down relative to total unemployment. Because few States extended benefit programs are activated, it is not clear how useful that program really is at this point.

Acting Chairman DOWNEY. I would think it is very hard to explain to people who are not receiving the benefits that the money is there and it is not going to them. That is seemingly beyond my ability to convince them that somehow this program is working when there is a surplus in that particular account, and yet only two States—the gentleman from Texas will remember our biggest State and our smallest States are currently triggered for extended benefits.

Mr. Shaw.

Mr. SHAW. Following up on that, we have heard here from members on the panel and members up here on the dais about the delay of receiving benefits. But let me ask this question.

Has any employed worker eligible for benefits been denied benefits because the State's trust fund was insolvent?

Mr. THOMPSON. No; the State trust fund borrows from the Federal loan account.

Mr. SHAW. Which you testified is solvent. Unless we get into a prolonged, unanticipated recession, I think you used the words "If OMB's projections are correct, they will be all right"?

Mr. THOMPSON. The Federal loan account can borrow from the Treasury. There is no threat to benefits.

There are other fiscal problems, but there is no threat to the individual worker's benefits.

Mr. SHAW. Except for the fact that you are troubled by some State laws, would it be correct to sum up your testimony by saying that at this point the Federal-State program of unemployment benefits is not broken?

Mr. THOMPSON. I think it would be fair to say that there is no threat to benefit payments, but there is a——

Mr. SHAW. And that is what the program is all about?

Mr. THOMPSON. There is a dynamic here. The way the States have chosen in the recent years to finance this, and I don't say all States, but States in the aggregate, to finance it at levels which are not really adequate.

The reserves are not adequate to pay for recession level of benefits. So they borrow.

Then there is a Federal incentive to pay the loans back.

Mr. SHAW. That is why it is set up the way it is, so we can spread the pain and have that fund available for States that are in more trouble than other States?

Mr. THOMPSON. In the process, you don't have a cushion to draw on during the recession. The one-half of the purpose of the unemployment insurance program, the macroeconomic half of it, was to be countercyclical. That is being frustrated by the fact that States have to adjust their taxes and maybe reduce their benefits right in the middle of a recession. So that is being frustrated.

Our concern is that the process, the dynamic of the process is also encouraging further reductions in the number of workers who are eligible for benefits.

Mr. SHAW. What is the difference with regard to the benefits between States?

Mr. THOMPSON. It is quite dramatic.

Mr. SHAW. What effect does that have on the solvency of their programs?

Mr. THOMPSON. Each State has their own trust fund. It levies taxes and has a certain amount of freedom as to what rate it levies its taxes.

Mr. SHAW. Do you find generally in your study that the States that have the more generous provisions for paying benefits are the ones that get into trouble and have to borrow more, or is there a correlation there?

Mr. THOMPSON. No. I never looked at it exactly that way.

We do have some information, in fact, that we can give you on who has had to borrow. It tends to be more a function of the regional economics.

In other words, in the 1980s it was the Texas area and the Rust Belt where they tended to run into problems.

Mr. SHAW. It is more economic than political?

Mr. THOMPSON. It is more a question of regional economics that tend to lead to the loans, yes.

Mr. SHAW. Are you finding that these particular States, even though their problem may be more economic than political, sort of dropped their guard and got a little sloppy by reducing the taxes that were paid in good times and, thereby, destroyed the countercyclical intent of setting this fund up?

Mr. THOMPSON. It has been relatively widespread the changes the States have made. The situation has deteriorated in all States. Zero States had reserves at 1.5 times the high-cost multiple.

Not all States have triggered loans. There are some States who have never triggered a loan.

But all States have seen their balances deteriorate and have taken those kinds of steps more or less to tighten up.

Mr. SHAW. And that is the wrong thing to do in a recession?

Mr. THOMPSON. That would be our view, yes.

Mr. SHAW. Thank you.

Acting Chairman DOWNEY. Thank you, Mr. Shaw.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Could you tell us who sets the high-cost multiple at 1.5?

Who said that, and what the basis for that is? Is that number pulled out of the air? How do they decide that number?

Mr. THOMPSON. The Interstate Conference of Employment Security Agencies established it. I don't want you to think this is the be all, end all, carved-in-stone, cannot-be-challenged standard.

One can probably invest time and resources into studying exactly what the best standard might be.

But it is sort of the only one that has been put forward recently.

It was developed judgmentally as what seems to make sense for a rule of thumb for an adequate reserve.

The Labor Department encouraged States to view it as a goal up through the late 1970s, early 1980s. But I think more recently they have been silent as to what is a desirable goal.

Mr. MCDERMOTT. If I understand your testimony, what happens if a State does not have adequate reserves is that they go into recession. They start borrowing.

But they also have a choice at that point between raising taxes on employers and reducing benefits. So is it a fair assumption to say that if we put in place incentives that would drive that number up above 1.5 or require that everybody be at 1.5, that there would be less pressure to reduce benefits during a time of recession?

Mr. THOMPSON. Or raise taxes. That is right.

One would hope that the balances then would be sufficient to weather the recession so you wouldn't have to make these kinds of changes while there are serious unemployment problems.

Mr. MCDERMOTT. Are you aware of any good studies about the impact of the countercyclical effects of having an adequate unemployment fund?

Mr. THOMPSON. Not off the top of my head. One of my friends at Brookings has done some work on how the adequacy of the countercyclical effect has been reduced over the last 20 years as the program has covered fewer and fewer people.

I remember he said something like a third of the countercyclical effects present in the 1960s and the 1970s has evaporated.

Mr. MCDERMOTT. If you have that reference, I would appreciate your giving it to my office.

Acting Chairman DOWNEY. We received testimony in the last round from the gentleman from Brookings who basically testified to the fact that it is 25 percent reduced effectiveness in terms of being a countercyclical tool.

Mr. Chandler.

Mr. CHANDLER. I am interested, of course, in the issue as is everybody else on this panel.

One of the things that occurs to me is that States making their own decisions about how they manage their trust fund has got to be very much part of this equation.

I am wondering, what is your view of the best timing for restoration of a trust fund? I think it is probably pretty clear, at least in my view, that if you raise taxes on business to restore a fund during a recession, that would have an even greater dampening effect on whatever recovery might be about to occur or is already underway.

At the same time, it would seem to be logical that if you are going to restore a balance in a fund, you do that when times are good.

Do you have any comment on that and how we might be of assistance to the States?

Should we just have hand's off?

Mr. THOMPSON. Well, I guess our view is that the States have to be encouraged to build up the balances when times are good to a greater extent than they have, say, during the 1980s.

They have to be encouraged to do that. That will then give them the reserves necessary to be able to go through the recession without having to raise their employers' taxes.

It may be a situation where a little encouragement from outside to be responsible may be a good thing. Let's face it—all States feel that they are in competition with their neighbors for having a good business climate, and so forth.

The unemployment insurance tax rate is one of the things that businesses, or at least people who counsel businesses on their location decisions, tend to look at. That makes the States want to avoid raising the taxes any more than they have to.

Maybe if they all were in the same boat together, then the competition wouldn't quite have that same effect.

Mr. CHANDLER. Are you saying we ought to have some kind of a mandated national standard?

Mr. THOMPSON. I think the Congress has to work through what is a sensible approach here. How do you deal with the States and encourage them to do what we think is the responsible thing to do.

I really haven't done a detailed study of what all the mechanisms might be and the process and consequences. I am speculating here. I would rather not go too much farther than that.

Mr. CHANDLER. Obviously, the economy and its health will vary throughout the Nation. The Northeast clearly having difficulty now.

Out West we are in better shape with the exception of some sectors. Yet in the early 1980s our State, Washington, as Jim McDermott well knows, we were really in the tank.

We were drawing like crazy on these funds. Then coming out of that we wanted to do everything we could to diversify economy and attract employers to the State.

I fully appreciate what you are saying. It does provide us with a dilemma, how to provide that incentive.

Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mr. Andrews.

Mr. ANDREWS. There really have been a lot of problems in making estimates that end up being too low either because of, I guess, miscalculations on the Congress' part or past administrations' part and possibly the economy, of course.

Give us your thoughts, Mr. Thompson. Do you have suggestions of what we could do, maybe short of Mr. Downey's approach, to make this work better, to make our estimates more appropriate, or to streamline the administrative procedures?

Are there some easy suggestions here?

Mr. THOMPSON. You are really referring to the administrative expenses; is that right?

Mr. ANDREWS. Yes.

Mr. THOMPSON. Unfortunately, that is the Appropriations Committee that sets that. We did some work for them 1½ years ago looking at the adequacy of the administrative funding that was sent out to the States. At that time we found evidence of inadequacies.

We found that States were supplementing the Federal money. The idea of the program originally was that the Feds were going to supply from the Federal payroll tax receipts, were going to fund the States at whatever was an adequate amount to operate the unemployment insurance program.

We found States were having to supplement the Federal grants in order to operate what they felt was an adequate program. They were making changes which at the time they told us, the six or seven States we visited, they told us, "We are in a position where if there is a bad recession any time soon, we could have trouble serving our clients."

Of course, it turned out to be true, as we have read about in the newspaper

It is a question of whether you, the Congress and the administration, are willing to put the money there that looks like is needed in order to operate the program.

Unfortunately, at the moment that is a pot of money which is under the nondefense discretionary cap so that it competes with all other nondefense discretionary items.

Mr. ANDREWS. Do you want to add anything to that?

Mr. NILSEN. No.

Mr. ANDREWS. Thank you.

Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mrs. Johnson.

Mrs. JOHNSON. Thank you, Mr. Chairman.

I have served in a State body during a period when we had to borrow heavily to cover the unemployment problems.

We didn't cut benefits and we didn't increases taxes. As the problem resolved itself, we were also able to build up our reserves.

What proportion of the States have cut benefits in order to deal with their funding problems?

Mr. THOMPSON. I alluded to some, in fact, in my prepared statement. I didn't read that part of it.

I mentioned some that we included a report about 1½ years ago that summarized the financial status of the system.

Since 1981, of eight States that used to allow benefits for longer than 26 weeks, six of them cut it back to 26 weeks.

Mrs. JOHNSON. Six cut back?

Mr. THOMPSON. Yes. Thirty five States increased the earnings level required for minimum weekly benefits.

Eighteen States changed the earnings discretionary formula in such a way as to reduce the number of people eligible for benefits. You have to have earnings a certain number of months or quarters in the year prior to when you file for benefits.

States have changed the amount you have to have or they have said you have got to have them in more months or you have got to have earnings of so much, but you have got to have, or your high quarter——

Mrs. JOHNSON. What is the range of change?

Is the range of available benefits 6 to 7 months or is it 9 to 12 months? How serious is this?

Mr. THOMPSON. The individual changes are relatively modest.

There will be a little modest change and then a couple of years later a little modest change. They accumulate.

Over time, after you have made four or five of these modest changes, you get yourself to the point where you have made fairly decent changes.

We have to realize this is a real classic State program.

There are quite dramatic differences among the States in what those provisions are.

Mrs. JOHNSON. I want to know whether I am making changes because six States behaved badly or behaved in ways we think are unsound or whether 45 States did. I think that is important to know.

It is also important to know whether these are incremental changes over a decade or whether they have taken place over 2 or 3 years.

I think that issue of the severity of the benefit changes in both the number of States and the nature of benefit degradation is important.

Acting Chairman DOWNEY. Mr. Thompson, if I am going to summarize what you have told me, it would be that as a result of certain States having lower balances as we have headed into this recession, there are fewer workers who receive benefits throughout the country, and they receive benefits for a shorter period of time.

Mr. THOMPSON. As a result of what States did to pay off the loans in the 1980s, there are now fewer workers who will be receiving benefits and, as you say, for a shorter period of time.

Our fear is that a recession will start another cycle. As the loans are generated, the recession after this one could have fewer workers receiving benefits.

Acting Chairman DOWNEY. Unless I am one of those workers who is unemployed, so what?

Mr. THOMPSON. What can I say? First of all, the system does have a countercyclical aspect to it, so we all benefit from that.

But the purpose of the unemployment insurance system is to take care of people who have lost their jobs. I think the Congress can profitably look and see whether it is comfortable with the people now covered by that system, whether the decline in the number of folks collecting benefits is something you are comfortable with.

Acting Chairman DOWNEY. I am playing the devil's advocate with you just a bit. The workers who are not covered, are they, as we accumulate more and more of them, is it fair to summarize your testimony to say that as fewer people can engage in this system, the likelihood is that recessions of the future could be longer and deeper? That this countercyclical tool will have less of an impact on ameliorating the effects of recession?

Mr. THOMPSON. That is correct. You should understand that the workers being cut out by these changes in eligibility rules tend to be the ones with less attachment to the labor force.

In other words, we are talking about people who had trouble finding jobs or were part-time workers or something like that. They are the ones who tend to get knocked off when you tighten the eligibility.

In all fairness, I have to say that the worker who has worked for 10 years solid in a steel mill and loses his job, he is going to get his benefits.

It is the people who have had troubled work histories who have been affected by these recent changes.

Acting Chairman DOWNEY. I think it would be fair to add, these are the people who are probably in the worst position to weather a bad economic period?

Mr. THOMPSON. Many of them, yes.

Acting Chairman DOWNEY. Thank you.

The subcommittee will next hear from a panel comprised of Employment Security Department, State of Washington. Vernon Stoner, commissioner. Sharon Long, senior research associate of the Urban Institute. Walter Nicholson, professor of economics, Amherst College from Amherst, Mass.

Mr. Stoner, you have two of your State Representatives here.

We have Mr. Chandler and Mr. McDermott.

Do you want to say anything?

STATEMENT OF VERNON E. STONER, COMMISSIONER, EMPLOYMENT SECURITY DEPARTMENT, STATE OF WASHINGTON

Mr. STONER. My name is Vernon Stoner. I am the commissioner of the Washington State Employment Department. It is an honor and pleasure to be invited to appear before you today.

I started this job a little over 2 weeks ago. When I walked through the front door I was immediately faced with the unemployment insurance program in serious difficulty and, by extension, an entire array of employment and training programs put at risk.

The current state of affairs is easily summarized. I would like to make just three points.

First, there must be recognition that the current systems and practices for financing the unemployment insurance system aren't working. The funds for the administration of the unemployment insurance program are dedicated employer taxes. The funds are there to meet the need.

Formulas exist to allocate the funds to the States. But those dedicated funds are not getting to those of us charged to assist the unemployed. Our capacity to provide quality unemployment insurance services to unemployed workers is gone.

State directors are forced to decide between local availability of services and the quality of services. Some States have chosen quality. That is, they have closed offices and reduced local access to services.

Long lines extend out the door and down the block. Clients are said to wait as long as 6 hours to apply for unemployment insurance benefits. Clearly, this is not the solution.

In Washington State the department chose to retain the local availability of services. We haven't closed offices, yet. In a large State such as Washington many of the unemployed already have long distances to travel to the nearest office.

Closures would mean that some would have to drive 1 or 2 hours to reach an office. Further, office closures remove other services from the community, taking the impact beyond the unemployment insurance program.

The down side of our decision is that we have fewer resources to do a quality job. Staff spend less time with the individual claimants. Constant streamlining of operations means that eligibility is checked less often. Decisions to allow or deny benefits are more rushed than in the past and, at the same time, backlogs grow.

So what does that mean to the citizens of our State? For the unemployed worker it means more chances for the wrong decision on eligibility. It means delayed payments. Not surprisingly, it also means more overpayments. It is hard to put food on the table when you are waiting for a late check or being asked to pay back money you received in error.

For employers it means a system funded by their taxes that is not responsive to their concerns. More time is spent in correspondence with the department and in benefit appeals. In the long run, inefficiency will mean higher taxes for some employers. Just as clearly, our choice is not the answer.

Second, there must be a solution to this year's problem. The unemployment insurance shortfall is now at least $200 million. You must give us the capacity to do what we are statutorily and ethically required to do. To provide the unemployed with the expectation of assistance and withhold the means of providing it is unconscionable.

As you know, the States work on something like a price rate. We receive a set amount for each claim component processed.

Right now we are only being paid 75 percent of that piece rate for each additional activity. That piece rate will be cut further if supplemental funds are not made available.

Third, there needs to be a longer-term solution. Radical reform may be necessary, but something must be put in place to keep the system functioning during the reform debate.

Today's focus on the deficit means that the old ways of doing business won't work. Forecasting unemployment 2 years out has always been difficult. Underestimations haven't been uncommon.

In the past that meant automatic supplementals. The new budget cap make it critical that new ways be tried. I am told funding for the unemployment insurance program will likely continue to decline.

I am not an expert on administrative financing and budget writing, you are. But, I would like to offer a suggestion.

Lately, there has been an increase in interest in the concept of a true contingency reserve. I understand a similar provision exists for Social Security.

During the budget process a unemployment insurance contingency reserve would be set aside containing sufficient funds to meet forecast needs, and more. These funds would become available when unemployment levels increase beyond those originally forecast.

Perhaps because I am a newcomer to the unemployment insurance program and to Washington politics, I don't understand why there can't be an intense, bipartisan effort to deal with the problem right now.

We are in recession, each week more of our citizens become unemployed and our ability to meet their legitimate needs is strangled.

Please, approve a supplemental appropriation of at least $200 million and take positive steps to create a true unemployment insurance contingency reserve so the problems of this year won't be repeated next year, and the year after that.

Again, thank you for this opportunity and I look forward to working with you on this and other issues in the future.

Acting Chairman DOWNEY. Thank you, Mr. Stoner.

Ms. Long.

STATEMENT OF SHARON K. LONG, SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE

Ms. SHARON LONG. Mr. Chairman, and members of the committee, I would like to thank you for the opportunity to appear today and offer some observations about unemployment and unemployment insurance.

During the 1980s, there were two major developments in State unemployment insurance: A sizable reduction in the availability of program benefits to the unemployed, and an unprecedented reliance on loans from the U.S. Treasury to make benefit payments.

My remarks address both topics. I first consider the availability of unemployment insurance benefits under the State unemployment insurance programs and then examine how States have changed their unemployment insurance programs in response to financial strains in those programs.

During the early 1980s, the proportion of unemployed workers claiming and receiving unemployment insurance benefits declined,

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and that proportion remained low for the remainder of the decade. Reduced rates of application for and receipt of benefits occurred under both the regular State unemployment insurance programs and the Federal-State extended benefits program (which provides additional weeks of benefits beyond the regular unemployment insurance program in States where unemployment rates are relatively high).

In the regular State unemployment insurance programs the decline in the proportion of the unemployed claiming benefits was, roughly, 20 to 25 percent, from about 4 out of 10 unemployed persons at the start of the 1980s to about 3 out of 10 from 1983 to 1989. If the Federal-State extended benefits program were included in the calculations of unemployment insurance recipiency, the decline over the 1980s would be even more striking.

With the increase in the unemployment rate in 1990, the share of the unemployed claiming benefits rose to 0.35. This increase is typical of the start of an economic downturn when job losers become a larger component of the unemployment pool. Job losers, in contrast to job leavers, the new entrants and reentrants into the labor force, are more likely to be eligible for and receive benefits from the unemployment insurance program.

The decline in unemployment insurance claims activity in the 1980s is not understood, although contributing factors have been identified. Those factors are a change in the regional distribution of unemployment, a decline in the share of employment accounted for by mining construction and manufacturing industries, and a decline in unionization. All three factors are related and all represent long-term changes in the labor market away from areas and workers with above average UI participation.

One aspect of UI claims activity that deserves special emphasis is the high degree of variation in UI recipiency across the States and regions. States in the Northeast and States along the Pacific Coast have the highest UI recipiency rates. In 1989, the recipiency rates ranged from a high of almost 7 out of 10 of the unemployment in Rhode Island to a low of fewer than 2 out of 10 in Florida and Virginia.

The regional patterns in UI recipiency suggest that the UI programs are less hospitable to potential claimants in Southern and Mountain States than elsewhere in the country.

Since a growing share of U.S. employment is located in those States, this finding has implications for long-term UI benefit application and recipiency rates.

The decline in the receipt of UI benefits by the unemployed reflects changes in eligibility among the unemployed and changes in application rates among those who are eligible. New data from a 1989 supplemental to the current population survey provides a first look at nonfilers reasons for not applying for benefits.

The following observations can be offered based on initial tabulations on those nonfilers.

First, most nonapplicants appear to know about the UI program, so that ignorance of the program's existence does not appear to be an important factor in low application rates.

Second, relatively few people report that they are deterred from applying for benefits because it is either too much hassle or because of stigma attached to the receipt of benefits.

Third, the most common reason for not applying is that the unemployed workers do not think they are eligible for benefits. If the administration of UI programs has become more hard-nosed or if the conditions of eligibility have become more difficult to satisfy since the late 1970s, we would expect this reason for not applying for benefits to have increased over time and to be a factor in declining UI recipiency rates.

Turning now to changes in UI programs. During the 1980s trust fund balances in many States were not large enough to meet the heavy demands for benefits from eligible unemployed workers. Individual States in this situation have responded in different ways: By borrowing from the U.S. Treasury, by raising UI taxes, and by restricting the availability of UI benefits. By requiring interest payments on new loans, legislation in the early 1980s significantly increased the cost of UI debt to the States and provided strong financial incentives to the States to make solvency improvements.

Legislation in 1983 provided an added spur by offering explicit quid pro quo—reduced or deferred cost of debt in return for a major improvement in program solvency through tax increases or benefit reductions. In response to these inducements to modify their UI laws, legislation was enacted or at least proposed in all the States with large debts.

I will focus on State legislation enacted in 1983 and 1984 to improve solvency in the eight States that had the largest debt at the end of 1983.

To improve program solvency all eight of those States enacted multiple changes in their statutes governing UI benefits and taxes.

Seven of the eight States enacted benefit reductions and two raised taxes on workers. The most common benefit changes were freezing maximum weekly benefits, lowering statutory replacement rates, and required increased weekly earnings in computing base period credit weeks.

Changes in the base period requirements, in particular, would tend to make previously eligible workers ineligible. As an example of the changes in the UI program to limit eligibility, Michigan enacted two major changes in UI laws in the early 1980s.

Among other changes, those laws increased base-period requirements for monetary eligibility. The required weeks of work were raised from 14 to 20 weeks and the required weekly earnings increased from $25.01 in 1981 to $100 in 1983.

Changes were also enacted in employer tax provisions by all eight States. Five States raised the taxable wage base and all States made changes in their tax rates.

In the aggregate, the shares of the total sacrifice in the eight larger debtor States for the 1983 to 1986 period were estimated at, roughly, 69 percent through employer tax increases and 31 percent through benefits reductions.

Thank you.

That concludes my remarks.

[The prepared statement follows:]

STATEMENT OF SHARON K. LONG AND WAYNE VROMAN
THE URBAN INSTITUTE

Mr. Chairman, and members of the Committee, I would like to thank you for the opportunity to appear today and offer some observations about unemployment and unemployment insurance (UI). During the 1980s there were two major developments in state unemployment insurance: a sizable reduction in the availability of program benefits to the unemployed, and an unprecedented reliance on loans from the U.S. Treasury to make benefit payments. My remarks address both topics. I first consider the availability of UI benefits under the state UI programs and then examine how states have changed their UI programs in response to financial strains in those programs.

I. THE AVAILABILITY OF UI BENEFITS TO THE UNEMPLOYED

During the early 1980s the proportion of unemployed workers claiming and receiving UI benefits declined, and that proportion remained low for the remainder of the decade. Reduced rates of application for and receipt of benefits occurred under both the regular state UI programs and the federal-state Extended Benefits program (which provides additional weeks of benefits beyond the regular UI program in states where unemployment rates are relatively high). In the regular state UI programs the decline in the proportion of the unemployed claiming benefits was roughly 20 to 25 percent, from about 4 out of 10 unemployed persons at the start of the 1980s to about 3 out of 10 from 1983 to 1989. If the federal-state Extended Benefits program were included in the calculations of UI recipiency the decline over the 1980s would be even more striking.

With the increase in the unemployment rate in 1990, the share of the unemployed claiming benefits rose to .35. This increase is typical of the start of an economic downturn when job losers become a larger component of the unemployment pool. Job losers, in contrast to job leavers, and new entrants and reentrants into the labor force, are more likely to be eligible for and receive benefits from the UI program.

The decline in benefit recipiency in the 1980s adversely affects the ability of the UI system to satisfy its two main objectives: to serve as an income maintenance program for unemployed workers and their families, and to help stabilize the economy during economic downturns.

Reasons for the Decline in Claims Activity in the 1980s

The decline in UI claims activity of the early 1980s is not fully understood, but several contributing factors have been identified by research undertaken at the Brookings Institution, Mathematica Policy Research, Inc., the Urban Institute, and by academics.[1] Although this research has not reached a consensus, certain conclusions about the decline in UI benefit receipt can be offered. Three contributing factors have been identified: (1) the change in the regional distribution of

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[1] Four papers of note are: (1) Gary Burtless and Daniel Sax, "The Decline in Insured Unemployment During the 1980s," (Washington, DC: The Brookings Institution, 1984); (2) Walter Corson and Walter Nicholson, An Examination of Declining UI Claims Activity During the 1980s, Unemployment Insurance Occasional Paper 88-3, (Washington, DC: U.S. Department of Labor, ETA, 1988); (3) Wayne Vroman, "The Decline in Unemployment Claims Activity in the 1980s," (Washington, DC: The Urban Institute, 1990); and (4) Rebecca Blank and David Card, "Recent Trends in Insured and Uninsured Unemployment: Is There an Explanation?" Quarterly Journal of Economics, (1991, forthcoming). This testimony draws on the paper by Dr. Vroman.

unemployment, (2) a decline in the share of employment accounted for by mining, construction, and manufacturing industries, and (3) a decline in unionization. All three factors are related and represent long-term evolutionary changes in the labor market away from areas and groups of workers with above-average participation in unemployment insurance towards areas and workers with lower levels of participation.

Declining claims activity has also been associated with changes in federal and state laws and state administrative practices. Disqualification penalties have been increased, maximum benefit durations have been shortened, and base period requirements have been raised. I will turn to these changes in more detail later.

Table 1 shows three common measures of unemployment by state for calendar year 1989. Insured unemployment (IU) is a measure of persons actively claiming benefits from the regular state UI programs. It is a count of the average weekly number of beneficiaries plus persons who have filed for benefits but are serving their waiting period or serving certain types of disqualifications. It does not include unemployed persons who have not filed for benefits nor persons who have exhausted their eligibility for regular UI benefits.

The estimates of total unemployment (TU), which includes all unemployed persons aged 16 and over, are derived from the monthly Current Population Survey (CPS), a labor force survey of 55,000 households. This survey provides annual estimates of total unemployment by state and monthly estimates for eleven of the largest states. The ratio of insured unemployment to total unemployment provides a measure of UI claims activity.

One aspect of UI claims activity that may deserve special emphasis is the degree of variation in that activity across the states and regions. The proportion of the unemployed who apply for and receive UI benefits varies considerably from one state to the next, as illustrated in Table 1. In general, states in the Northeast and states along the Pacific coast have the highest UI recipiency rates, while Southern and Rocky Mountain states have the lowest recipiency rates. In 1989, the ratio of insured to total unemployment ranged from a high of .67 in Rhode Island to a low of .17 in Florida and Virginia. Overall, state UI programs compensated about 32 percent of the unemployed in 1989.

An Assessment of Benefit Availability

In order to qualify for UI benefits, unemployed persons must have worked recently for a covered employer for a specified period of time and for a certain amount of wages (as determined by each state) and, in general, must have lost their jobs through no fault of their own. Thus, recent labor force entrants and reentrants who lose their jobs and, to a great extent, workers who leave their jobs voluntarily, are excluded from receiving UI benefits. The CPS determines reasons for unemployment, distinguishing among job losers, job leavers, reentrants into the labor force, and new entrants into the labor force. Job losers are persons who have lost their jobs through employer actions, mainly layoffs. Of the four groups of unemployed, job losers are the group most likely to receive UI benefits because they became unemployed for reasons largely beyond their control and because they have recent work experience. Table 1 includes a measure of job loser unemployment (JLU) for 1989.

Suppose a state does not provide UI benefits to a substantial share of its job losers? Since the job losers represent the group of experienced workers who are involuntarily unemployed and include the primary target group of the UI program this would suggest that the state is not serving many apparently eligible persons.

To explore the implications of the availability of benefits to the job losers, we assume that 70 percent of a state's job losers would be expected to collect UI benefits. This percentage was selected partly because data for 1989 indicate that about 70 percent of job loser unemployment nationwide is insured unemployment. The 70 percent figure also allows for such factors as application delays, monetary and nonmonetary disqualifications and the exhaustion of benefits.[2] The ratio of insured unemployment (from UI program data) to 70 percent of job loser unemployment (from the CPS) can be viewed as a UI benefit availability index. A more refined measure of benefit availability could be constructed if we had better data on the personal characteristics of UI claimants, including earnings histories and indications of their reasons for leaving employment.

Table 1 presents the benefit availability index for each of the states. In calendar year 1989, there were 25 states where the number of insured unemployed were less than 70 percent of the number of job losers. The 25 states are distributed as follows: 1 in the Northeast (New Hampshire), 5 in the Midwest (Illinois, Indiana, Ohio, Iowa, and South Dakota), 13 in the South (all but Delaware, Maryland, the District of Columbia, and North Carolina) and 6 in the West (Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming).

Several states fall considerably below this standard for providing UI benefits. The 1989 ratios were below .80 [i.e., (IU/(.7*JLU)) < .80] in 12 states -- Indiana, Florida, West Virgina, Alabama, Oklahoma, Texas, New Hampshire, South Dakota, Louisiana, Colorado, New Mexico, and Utah. The regional distribution of this calculation of UI benefit availability is striking. Almost all of the states where this benefit availability measure is low are located in the Southern or the Rocky Mountain regions.

The preceding calculation is crude and, because the monthly household survey data that are the source of the measure of job-loser unemployment are based on a sample, it has a certain amount of statistical "noise" for any given year. For this measure, however, the group of low performing states is quite stable from one year to the next. When identical calculations of an availability index were performed for 1987 and 1988, the results were very similar to the 1989 calculations.

The final column of Table 1 shows three year averages of this benefit availability index. Of the 15 states where the three-year averages of the benefit availability index fell below .80, 12 were Southern and Rocky Mountain states. The regional patterns in Table 1 seem to suggest that the UI programs are less hospitable to potential claimants in the South and Mountain areas than are the programs elsewhere in the country. Since a growing share of U S. employment is located in the South

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[2] It should be noted that some unemployed job leavers and labor force reentrants are eligible for and collect UI benefits. Reentrants who were job losers prior to leaving the labor force and remained out of the labor force for less than a year could easily be eligible for UI benefits.

and Mountain states, this finding has implications for long term UI benefit application and recipiency rates.

Reasons for Not Applying for Unemployment Insurance Benefits

The decline in the receipt of UI benefits by the unemployed reflects both changes in eligibility among the unemployed and changes in application rates among those who are eligible. There is some evidence that application rates among eligibles may have declined in the early 1980s.[3] However, there has been little data available on why unemployed workers would not apply for UI benefits for which they appear to be eligible. The readily available data on insured unemployment and job loser unemployment do not include the eligibility status of the covered unemployed who do not apply for UI benefits. However, new data from a 1989-1990 supplement to the CPS provide a first look at nonfilers' reasons for not applying for UI benefits and some insight into people's understanding of the UI application-receipt process.

Supplemental questions about unemployment insurance were asked of unemployed workers in the CPS in the surveys of May, August, and November of 1989, and February 1990. Usable responses were received for about 2,850 persons who were job losers, job leavers, or reentrants. Job losers made up about half of the total in the special sample.[4]

Several aspects of the new survey data are noteworthy. Job losers are much more likely to apply for UI benefits than are job leavers or reentrants. The average proportion of people who applied for benefits during their current spell of unemployment were .53 for job losers, .11 for job leavers, and .14 for reentrants. Overall, the proportion of experienced unemployed applying for UI benefits was .34.

The following observations can be offered based on the reasons given by nonapplicants when they were asked why they did not apply for UI benefits:

- Most nonapplicants appear to know about the UI program, so that ignorance of the program's existence does not appear to be an important factor in low application rates.

- Relatively few people report that they are deterred from applying for benefits because it is too much hassle or because of any stigma attached to the receipt of benefits.

- The most common reason for not applying is that the unemployed workers do not think they are eligible for benefits. If the administration of UI programs has become more "hard-nosed" and/or if the conditions of eligibility have become more difficult to satisfy since the late 1970s, we would expect this reason for not applying for benefits to have increased over time. Since we do not know how well these workers understand UI monetary

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[3] See the Blank and Card paper referenced in footnote 1.

[4] Analysis of these data is summarized in Dr. Vroman's report cited in footnote 1.

- eligibility criteria and other eligibility conditions, this is an area in which our knowledge needs to be improved by the matching of survey responses with program data.

- Having another job (or expecting to have another job) is a common reason for not applying.

- The prevalence of "other" and "don't know" responses to questions in the CPS supplement limit our ability to fully understand why such a low proportion of the unemployed apply for UI benefits.

For workers who indicated that they were not eligible for UI, a follow-up question probed for the reason they believed they were ineligible. About half of those questioned said they did not work enough to qualify and about one-third said they had quit their last job, both plausible reasons for ineligibility. Again, it would be useful to check these responses against eligibility determinations made by the UI agencies themselves to ascertain how well potential claimants understand the program.

Multivariate regression analysis revealed the importance of other factors in the application for and receipt of benefits. Married persons were more likely to participate in UI than were others. Higher application and recipiency rates were found for persons formerly employed in the mining, construction, and manufacturing industries. Union members were much more likely to participate than others. Lower application and recipiency rates were found in the South.

Consistent with earlier research the new survey data point to changes in the regional distribution of unemployment, industrial shifts in employment and unemployment, and declining unionization as factors contributing to declining UI application and recipiency rates among the unemployed.

While the findings to date based on the new survey data have been useful, the data have not yet been thoroughly analyzed. As they contain a wealth of new information, additional research using the new survey data should help us to better understand the UI application-receipt process.

II. CHANGES IN STATE PROGRAMS IN RESPONSE TO FINANCIAL STRAINS

The problem of inadequate trust benefit financing first emerged in the 1970s. During the 1980s trust fund balances in many states were not large enough to meet the heavy demand for benefits from eligible unemployed workers. Individual states in this situation have responded in different ways: by borrowing from the U.S. Treasury, raising UI taxes, and/or restricting the availability of UI benefits. Over the eight years from 1980 to 1987, loans totaling $24 billion were made to 32 insolvent state UI programs. At the end of September 1990, only one state, Michigan, had any outstanding loans.

By requiring interest payments on new loans made after March 31, 1982, the 1981 Omnibus Budget Reconciliation Act significantly increased the costs of UI debts to the states and provided strong financial incentives to the states to make solvency improvements. The 1983 Social Security

Amendments provided an added spur to debtor state legislation by offering an explicit quid pro quo -- reduced and/or deferred costs of debt in return for a major improvement in program solvency through tax increases and or benefit reductions. In response to these strong inducements to modify their UI laws, legislation was enacted or at least proposed in all the states with large debts. In our remarks we will focus on legislation enacted in 1983 or 1984 to improve solvency in the eight states that had the largest debts at the end of 1983.[5] Those states are Pennsylvania, Illinois, Michigan, Ohio, Texas, Wisconsin, Louisiana, and New Jersey.

To improve program solvency, all eight debtor states enacted multiple changes in their statutes governing benefits and taxes. Table 2 shows the changes affecting weekly benefits, weeks per beneficiary, base period earnings requirements, disqualifications, and employee taxes. Seven of the states enacted benefit reductions and two raised taxes on workers. At least three provisions were changed in each of the seven states, implying that states relied on multiple changes in extracting sacrifices from workers.

The most common benefit changes were freezing maximum weekly benefits, lowering statutory replacement rates, and requiring increased weekly earnings in computing based period credit weeks. The elimination of payments for the waiting week and/or a reduced maximum duration of benefits were also frequently enacted by the states. Changes in the base period requirements in particular would tend to make some previously eligible unemployed workers ineligible for benefits.

As an example of the changes in the UI programs to limit eligibility, Michigan enacted two major changes in UI laws in the early 1980s. Among other changes in the UI programs, those laws increased the base period requirements for monetary eligibility. The required weeks of work were raised from 14 to 20 weeks and the required weekly earnings increased from $25.01 to 30 times the minimum wage ($100 in 1983).

Multiple changes were made by all eight states in employer tax provisions, as shown in Table 3. Five states raised the taxable wage base per employee and all the states made changes in their tax rates. In the aggregate, the shares of the total sacrifice in the eight large debtor states for the 1983-86 period were approximated at roughly 69 percent through employer tax increases and 31 percent through benefit reductions.

Mr. Chairman, that concludes my formal remarks. I would be happy to respond to any questions that you may have.

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[5] This discussion draws from Chapter 2 of Wayne Vroman, The Funding Crisis in State Unemployment Insurance, (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1986).

Table 1. Summary of State UI Benefit Availability for 1987-1989

	Unemployment Measures for 1989: IU, Insured Unemp.	TU, Total Unemp.	JLU, Job Loser Unemp.	IU/TU Ratio	UI Benefit Availability Index: Ratio of Ins. Unemployment to 70 Percent of Job Loser Unemployment - 1987-1989 1987	1988	1989	Avg.
UNITED STATES	2113.7	6529	2983.7	0.324	0.908	0.946	1.012	0.955
NORTH EAST								
CONNECTICUT	28.6	64	25.9	0.447	1.291	1.459	1.576	1.442
MAINE	11.5	25	11.8	0.459	1.048	1.305	1.388	1.247
MASSACHUSETTS	84.4	127	62.2	0.664	1.628	1.891	1.937	1.805
NEW HAMPSHIRE	5.3	21	10.4	0.253	0.642	0.708	0.728	0.693
RHODE ISLAND	14.2	21	10.6	0.674	1.597	2.165	1.908	1.890
VERMONT	5.0	11	5.7	0.456	1.193	1.759	1.260	1.404
NEW JERSEY	81.4	163	92.1	0.500	1.268	1.313	1.263	1.281
NEW YORK	180.1	442	222.3	0.408	1.161	1.318	1.157	1.212
PENNSYLVANIA	126.9	264	139.9	0.481	1.084	1.092	1.296	1.157
MIDWEST								
ILLINIOS	104.6	359	164.8	0.291	0.777	0.767	0.907	0.817
INDIANA	29.3	136	69.0	0.215	0.602	0.580	0.607	0.596
MICHIGAN	109.4	326	145.1	0.336	0.982	1.007	1.078	1.022
OHIO	86.0	300	144.6	0.287	0.762	0.818	0.850	0.810
WISCONSIN	46.1	114	56.2	0.404	0.994	1.030	1.172	1.065
IOWA	17.8	65	27.9	0.274	0.940	0.871	0.914	0.908
KANSAS	19.8	52	25.5	0.381	1.250	1.110	1.108	1.156
MINNESOTA	37.2	102	40.6	0.365	0.823	1.263	1.310	1.132
MISSOURI	46.1	143	62.2	0.322	0.898	0.954	1.059	0.970
NEBRASKA	7.5	25	9.2	0.299	0.861	1.106	1.159	1.042
NORTH DAKOTA	4.5	14	5.7	0.321	1.043	1.048	1.134	1.075
SOUTH DAKOTA	2.7	15	5.0	0.179	0.771	0.814	0.766	0.784
SOUTH								
DELAWARE	4.0	13	5.2	0.311	1.078	1.309	1.104	1.164
DIST. OF COL	7.4	16	6.4	0.464	1.150	1.496	1.645	1.430
FLORIDA	58.1	348	133.6	0.167	0.606	0.640	0.621	0.622
GEORGIA	39.4	177	72.0	0.223	1.064	0.772	0.782	0.873
MARYLAND	28.9	93	36.7	0.311	1.128	0.955	1.125	1.069
NORTH CAROLINA	41.2	119	45.8	0.346	0.939	1.094	1.283	1.105
SOUTH CAROLINA	22.9	80	40.5	0.287	0.794	0.898	0.809	0.834
VIRGINIA	21.7	123	36.5	0.176	0.728	0.799	0.848	0.792
WEST VIRGINIA	16.1	66	34.8	0.244	0.624	0.617	0.662	0.634
ALABAMA	32.2	134	71.6	0.240	0.707	0.598	0.643	0.649
KENTUCKY	27.5	108	48.8	0.254	0.604	0.667	0.804	0.692
MISSISSIPPI	21.9	91	35.5	0.240	0.714	0.805	0.880	0.800
TENNESSEE	41.5	121	64.0	0.343	0.868	0.919	0.925	0.904
ARKANSAS	24.7	82	38.0	0.301	1.062	1.029	0.929	1.007
LOUISIANA	36.3	151	72.0	0.240	0.681	0.582	0.720	0.661
OKLAHOMA	17.0	85	38.1	0.200	0.629	0.596	0.638	0.621
TEXAS	107.1	567	236.4	0.189	0.598	0.588	0.647	0.611
WEST								
ARIZONA	22.9	89	39.4	0.257	0.839	0.741	0.830	0.803
COLORADO	22.9	98	46.4	0.234	0.722	0.677	0.707	0.702
IDAHO	10.8	25	11.8	0.432	0.886	1.126	1.309	1.107
MONTANA	7.1	24	9.1	0.296	0.870	0.863	1.119	0.951
NEVADA	9.2	30	16.3	0.308	0.777	0.762	0.810	0.783
NEW MEXICO	10.9	46	22.1	0.237	0.696	0.733	0.704	0.711
UTAH	8.2	37	15.7	0.222	0.810	0.829	0.748	0.796
WYOMING	3.5	15	6.1	0.233	0.818	0.799	0.819	0.812
ALASKA	9.1	17	7.9	0.533	1.236	1.298	1.633	1.389
CALIFORNIA	321.1	737	356.7	0.436	1.219	1.224	1.285	1.243
HAWAII	5.1	13	3.7	0.389	1.395	1.483	1.957	1.612
OREGON	31.9	84	38.1	0.379	1.113	1.387	1.197	1.232
WASHINGTON	54.7	151	57.7	0.362	1.128	1.362	1.355	1.282

Source: Data on insured unemployment from UI program statistics. Data on total unemployment and job loser unemployment from the monthly labor force survey. All data are annual and measured in 000s.

Table 2

1983 Changes in UI Provisions Affecting Workers in Seven Debtor States[a]

Provisions and change	PA	IL	MI	OH	WI	LA	NJ
Weekly benefit amount:							
Freeze maximum		X[b]	X	X	X	X	[c]
Lower replacement rate	X	X	X				X
Lower wage basis		X					
Round down weekly benefit				X			X
Regular duration of weeks payable:							
End retroactive payment of the waiting week	X			X		X	
Lower maximum duration payable	X				X	X	
Base period requirements (mimimum):							
Increase weeks of work (or high quarter or weekly benefit multiple)			X		X		
Increased earnings per week (or quarter or year)			X	X	X		X
Disqualifications:							
Stiffen penalties				X	X		
Employee taxes:							
Add or increase	X						X

SOURCE: Based on materials previously described in this chapter using state and other sources noted therein.

a. These are seven of the ten states with the largest debts as of December 31, 1983. The other three states did not change their benefit provisions in this period.

b. Maximum set at one level from April 1983 to January 1984 and then at a higher level from February 1984 to June 1986.

c. Maximum weekly benefits were increased under New Jersey's legislation.

[This table is taken from Wayne Vroman, The Funding Crisis in State Unemployment Insurance, (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1986), p. 114.]

Table 3

1983 Changes in Employer UI Tax Provisions in Eight Debtor States[a]

Provision and change	PA	IL	MI	OH	TX	WI	LA	NJ
Higher taxable wage base	X	X	X	X		X		b
Higher taxes:								
Flat rate taxes	X	X		X	X	X	X	
Percentage surtaxes	X	X			X	X	X	X
Increased range of tax rates	X	X	X	X	X	X	X	X
Higher taxes for negative balance employers:								
Modify tax rate limiters			X			X		
Increased account building taxes	X		X					
Eliminate writeoffs of negative balances						X		
Surtax for negative balances			X				X	

SOURCE: Based on materials previously described in this chapter using state and other sources noted therein.

a. These are eight of the ten states with the largest debts as of December 31, 1983. The other two states did not change their tax provisions in this period.

b. State has an indexed taxable wage base that was not affected by its recent legislation.

[This table is taken from Wayne Vroman, The Funding Crisis in State Unemployment Insurance. (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1986), p. 115.]

STATEMENT OF WALTER NICHOLSON, PROFESSOR OF ECONOMICS, AMHERST COLLEGE AND MATHEMATICA POLICY RESEARCH, AMHERST, MASS.

Mr. NICHOLSON. Mr. Chairman and members of the committee, I am pleased to have the opportunity to discuss with you today the causes and consequences of the decline in regular unemployment insurance claims during the 1980s. Over the past 20 years my colleagues and I have examined a number of aspects of Federal-State system unemployment compensation with the general goal of determining whether the system provides adequate coverage to unemployed workers.

Today I would like to summarize results of a study of declining claims for unemployment benefits during the 1980s.

As I am sure you know, prior to 1980, benefits provided by regular State unemployment insurance programs covered approximately 41 percent of all weeks of unemployment experienced by U.S. workers.

During the 1980s, this figure fell to an average of about 35 percent and during some years even lower numbers were recorded.

In 1986, the Department of Labor contracted with Mathematica Policy Research to explore the possible reasons for this decline.

Overall, we found that no single reason explained the observed decline. Rather, the decline seems to have resulted from a variety of economic trends and from policy initiatives at the Federal and State levels.

Before summarizing the policy implications I think can be drawn from these findings, let me review what we found.

Virtually all measures of UI (unemployment insurance) activity illustrate the decline that occurred during the 1980s. In table I we list seven indicators of this trend.

The first four of these refer to activity under regular State UI programs and include: First, weeks claimed; second, weeks of benefits paid; third, initial intrastate claims, and fourth, first payments—all taken as a ratio to total weeks of unemployment. Each of these measures shows a statistically significant decline between 1971–79 and 1980–86.

The fact that the decline in weeks claimed approximated the declines found for various measures of initial claims and first payment activity, indicates that most of the decline in claims occurred because individuals, for whatever reason, were less likely to file for UI benefits during the 1980s. It did not seem to be the case that individuals on the program were actually collecting fewer weeks of benefits. Although the precise extent of the decline in UI claims varied somewhat, depending on what measure we used, most of our research focused on the observed 15 percent decline in weeks claimed, since that measure is the one most frequently referenced in policy discussions of the issue.

Much larger declines in claims were experienced under the three "special" UI programs listed on table I. Perhaps most significant were the decline in extended benefits claims during the 1980s. This decline is especially salient since unemployment rates were actually higher on average during the 1980s than during the 1970s, and

the incidence of long-term unemployment was probably greater during the latter decade.

Two reasons account for most of this decline: Cutbacks in the regular Federal-State extended benefits program (EB) and the impact of declining regular UI claims on the trigger indicators used in the EB program. Because our report focused primarily on UI activity under regular State programs, however, I will not specifically discuss declining extended benefits claims here.

The decline in UI claims was not uniform across all States' programs. Table II shows our results for the 11 largest States—those for which the data on total unemployment are most reliable.

With the exception of California, all of these States experienced declines in UI claims relative to total unemployment, but the extent of the decline varied from nearly 40 percent in Illinois to less than 10 percent in Ohio and Texas.

The figures in table II illustrate another important fact about UI coverage of the unemployed—that such coverage varied significantly among the States in both the 1970s and the 1980s. Despite the national decline in UI claims, the States of California, Massachusetts, New Jersey, and Pennsylvania continued to cover over 40 percent of all unemployed weeks during the 1980s.

Coverage in Florida and Texas was only half this level. One consequence of this disparity in UI coverage among the States is that the shift in the labor force toward States with low UI coverage has had the effect of lowering national statistics on such coverage, independent of any other change in economic conditions or UI regulations.

We examined a large number of potential reasons for the decline in unemployment insurance claims and tried to apportion the decline among those possible reasons.

With respect to general economic conditions, we concluded that between one-fifth and one-third of the declining claims could be explained by the decline in manufacturing employment and regional shifts in the location of the unemployed.

The two most important direct effects of Federal policy on unemployment claims were the institution of partial taxation and the cutback in extended benefit programs. The reduced generosity of the unemployment insurance programs seems to have limited individuals' participation in that program.

Our examination of changes in State laws showed that perhaps up to 40 percent of the decline in benefits could be explained by changes in State policies. Between 8 and 15 percent of the decline was explained by more stringent monetary eligibility requirements and the remainder by increasing denials for various reasons.

Let me turn to what I think the implications of our findings are for unemployment insurance policy. Since we found no single factor that explained the dramatic decline in UI claims, there is no simple policy change that will return claims to pre-1980 levels.

Changes such as the decline in unemployment from manufacturing and the changing regional composition of unemployment are not likely to be affected by unemployment insurance policy. Other changes such as extended benefits policy should be determined based on their own considerations.

Our findings on the effect of changes in State laws do suggest that one might think about various kinds of eligibility standards. We did find that increasing monetary eligibility standards did reduce claims, as did some of the tightening of standards for denials of benefits.

If States were to be encouraged to expand UI coverage of the unemployed, our findings also suggest attention might be directed to States where unemployment coverage is currently rather low. The States such as Florida and Texas, for example, only cover about 20 percent of their workers.

I think one should be cautious in this move, however. Examination of unemployment laws in these States suggest these low levels of UI coverage do not result from especially stringent laws for monetary eligibility. Florida and Texas have some of the least restrictive provisions of any of the large States. Where these States are restrictive is in offering relatively short durations of benefits to many of their claimants and in having relatively high rates of denials for nonmonetary reasons—for example, denials for misconduct and voluntary separation.

Whether the States should be encouraged to relax such rules requires a detailed examination of the relative merits of such provisions as a way of focusing unemployment benefits on certain categories of unemployed workers and not on others.

That concludes the summary of my prepared statement. I will be pleased to try to answer any questions you may have.

[The prepared statement follows:]

STATEMENT ON UNEMPLOYMENT INSURANCE COVERAGE OF THE UNEMPLOYED FOR THE SUBCOMMITTEE ON HUMAN RESOURCES COMMITTEE OF WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES FEBRUARY 20, 1991

Walter Nicholson
Amherst College and
Mathematica Policy Research

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to discuss with you some of the results of the study of declining claims for Unemployment Insurance (UI) benefits during the 1980s that my colleague Walter Corson and I have recently completed (Corson and Nicholson, 1988). As I am sure you know, prior to 1980 benefits provided under regular state UI programs covered approximately 41 percent of all weeks of unemployment experienced by U.S. workers. During the 1980s this figure fell to an average of about 35 percent and during some years even lower numbers were recorded. In 1986 the Department of Labor contracted with Mathematica Policy Research to explore the possible reasons for this decline. Overall we found that no single reason explained the observed decline. Rather, the decline seems to have resulted from a number of convergent trends in the labor market and from a variety of policy initiatives at the Federal and state levels. In this statement we briefly summarize these findings and examine a few of the policy issues raised by them.

A. SUMMARY MEASURES OF THE DECLINE IN UI CLAIMS

Virtually all measures of UI activity illustrate the decline that occurred during the 1980s. In Table I we list seven indicators of this trend. The first four of these refer to activity under regular state UI programs and include (1) Weeks Claimed, (2) Weeks of benefits paid, (3) Initial intrastate claims, and (4) First payments -- all taken as a ratio to total weeks of unemployment. Each of these measures shows a statistically significant decline between 1971-79 and 1980-86. The fact that the decline in weeks claimed approximated the declines found for various measures of initial claims and first payment activity indicates that most of the decline in claims occurred because individuals, for whatever reason, were less likely to file for UI benefits during the 1980s. It did not seem to be the case that individuals on the program were actually collecting fewer weeks of benefits. Although the precise extent of the decline in UI claims varied somewhat depending on what measure we used, most of our research focused on the observed 15 percent decline in weeks claimed since that measure is the one most frequently referenced in policy discussions of the issue.[1]

Much larger declines in claims were experienced under the three "special" UI programs listed in Table I. Perhaps most significant were the decline in extended benefits claims during the 1980s. This decline is especially salient since unemployment rates were actually higher on average during the 1980s than during the 1970s and the incidence of long term unemployment was probably greater during the latter decade. Two reasons account for most of this decline : cutbacks in the regular Federal-state extended benefits program (EB) and the impact of declining regular UI claims on the trigger indicators used in the EB program. Because our

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[1]Inclusion of data that became available after our report would not change the measured extent of the decline in UI claims very much. For all of the 1980s, the ratio of weeks claimed under regular state UI programs averaged approximately 34 percent of total weeks unemployed.

report focused primarily on UI activity under regular state programs, however, we will not specifically discuss declining extended benefits claims here.

The decline in UI claims was not uniform across all states' programs. Table II shows our results for the eleven largest states -- those for which the data on total unemployment are most reliable. With the exception of California all of these states experienced declines in UI claims relative to total unemployment, but the extent of the decline varied from nearly 40 percent in Illinois to less than 10 percent in Ohio and Texas.

The figures in Table II illustrate another important fact about UI coverage of the unemployed -- that such coverage varied significantly among the states in both the 1970s and the 1980s. Despite the national decline in UI claims, the states of California, Massachusetts, New Jersey and Pennsylvania continued to cover over 40 percent of all unemployed weeks during the 1980s. Coverage in Florida and Texas was only half this level. One consequence of this disparity in UI coverage among the states is that the shift in the labor force toward states with low UI coverage has had the effect of lowering national statistics on such coverage, independent of any other change in economic conditions or UI regulations.[2]

B. POTENTIAL EXPLANATIONS OF THE DECLINE

In our report we developed an exhaustive list of possible reasons for the observed decline in UI claims. We categorized these into four broad groupings : (1) Changes in the nature of the labor market; (2) Changes in Federal UI law; (3) Changes in state laws; and (4) Changes in the way unemployment is measured. Within each of these categories we identified a number of specific effects that might have contributed to the decline in UI claims, but we also found a number of factors that tended to operate in the opposite direction.

With respect to general changes in the labor market, only two offered the potential for explaining much of the decline in UI claims : (1) the decline in the fraction of the unemployed who were last employed in manufacturing industries -- an industry whose workers have traditionally exhibited a high level of UI eligibility and collection; and (2) the shifting geographical distribution of unemployment. Other labor market trends during the period were either too small to have had much of an effect on UI claims (e.g. the changing duration of unemployment) or had effects that tended to push UI claims upward (e.g. an increase in the proportion of the unemployed who were job losers).

A number of changes in Federal unemployment compensation policy occurred in the late 1970s and early 1980s and these may have had some impact on regular UI claims. Changes such as the institution of explicit offsets for pension receipt against UI benefits may have had a direct effect on UI claims by older workers. Other changes such as the increasing taxation of UI benefits and the decline in the availability of extended benefits programs may have had the effect of reducing the incentives for some workers to collect UI. Finally, changes in Federal UI trust fund policy and emergency loan provisions may have had the effect of encouraging the states to adopt more restrictive provisions in their own programs. Because many of these changes occurred at about the same time and because many of them operated on state UI claims in rather indirect ways, sorting out their effects posed a number of empirical difficulties.

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[2]Our empirical analysis suggested that about one percentage point of the six percentage point decline in national UI coverage between the 1970s and the 1980s resulted from such regional relocations. This finding is consistent with similar results reported by others (see, for example, Blank and Card, 1989 and Vroman, 1990).

States make frequent changes in their laws that govern UI eligibility and benefit amounts. They also make frequent adjustments in their administrative procedures for judging initial and continuing eligibility for UI. Since adoption of restrictive practices in any of these areas could have made a significant contribution to the decline in UI claims, we investigated this possibility thoroughly. Our examination included both the analysis of quantitative information about states' eligibility and benefits provisions and in-person interviews with UI officials in the largest states concerning their administrative practices. In general we found that laws that govern UI eligibility and benefit durations became slightly more restrictive during the 1980s. In our empirical work we attempted to evaluate the quantitative size of the effects of these changes. On average, weekly benefit amounts were little changed relative to average weekly wages in the 1980s.

State administrative practices exhibited no clear trend. For example, denial rates for misconduct and for disqualifying income increased during the 1980s but denials for various worktest violations fell significantly. In our state visits a number of administrators suggested that employers may have become more willing to challenge UI claims during the 1980s than was true in the past and data on UI appeals tend to support this notion. These general trends masked considerable variability in individual states' experiences, however.

In our examination of changes in state laws and administrative practices during the 1980s we also tried to determine whether there was any connection between the financing problems faced by some states and changes made in their UI laws. We identified four states where financing problems seemed especially severe (Illinois, Michigan, Ohio, and Pennsylvania) and two others (New Jersey and Texas) that experienced moderate difficulty. These states did not appear to exhibit uniform responses to their predicaments, however. Three of the states in the most difficulty did increase their UI qualifying requirements and Pennsylvania did reduce its maximum potential duration. But the maximum weekly benefit amount rose relative to average wages in three of these four states. Similarly, some states that were not in serious financial trouble seem to have tightened-up on their UI laws. States also had the option of meeting their financial difficulties through changes in their UI tax laws and a number seem to have taken that route as well. Hence, the connection between financial pressures on the states and states' reactions to these pressures was not clearcut.

A final possible explanation for the decline in UI claims is that the nature or measurement of unemployment itself changed during the 1980s. Since most examinations of the UI claims question have studied the ratio of claims to total unemployment, any increase in total unemployment that was not associated with general economic conditions could have caused this ratio to decline. Our examination of some of the methods used to estimate unemployment in the Current Population Survey may have had such an effect on the UI claims ratio, but this effect was probably rather small.

C. APPORTIONING THE DECLINE AMONG POTENTIAL CAUSES

Although our extensive examination of causes of the decline in UI claims did identify some possibilities and reject others, devising a methodology for providing a quantitative apportionment among the likely causes posed a variety of difficulties. Ultimately we adopted a series of statistical procedures based on both national data and detailed data on individual states' experiences in order to place some likely bounds on the size of various effects. Results of this exercise are reported in Table III. Overall, the combined value of our "high range" estimates of these effects explained all of the decline in UI claims observed whereas the "low range" estimates explained slightly more than half. Bounds for the size of the effect of particular explanations varied substantially depending, in part, on our confidence in the

estimate.

With respect to general economic effects, we concluded that between one fifth and one third of the decline in UI claims could be explained by the decline in manufacturing unemployment and by regional shifts in the location of the unemployed. Other trends in the level or composition of the unemployed had small or offsetting effects on the claims measures we used.

Our estimates suggested that the two most important direct effects of Federal policy on UI claims were the institution of partial taxation and the cutback in extended benefits programs. Such reduced generosity of the unemployment compensation system during the 1980s seems to have had some effect on individuals' participation in it. Developing a quantitative estimate of this effect involved a number of complications, but overall we concluded that they might explain between 11 and 25 percent of the decline in UI claims.[1]

Availability of detailed time series data on unemployment insurance laws in all states allowed us to develop extensive estimates of the effects that changes in those laws had on UI claims. Results of these estimates are summarized in the third section of Table III. We estimated that more stringent monetary eligibility requirements for UI and reduced potential durations accounted for between 8 and 15 percent of the observed decline in UI claims. Increasing denials for disqualifying income (mainly associated with the institution of pension offset provisions in state laws) probably contributed another 10 percent to the decline. Changes in other nonmonetary eligibility requirements (which were offset in part by reductions in worktest denials) probably explained a bit more of the decline. Our bottom line then is that as much as 40 percent of the decline in UI claims might have been explained by changes in UI law and administrative procedures at the state level.

Our examination of the Current Population Survey suggested that methods used to measure unemployment among nonrecipients of UI may indeed have become more accurate during the 1980s. We concluded that this may have contributed slightly to the decline in the ratio of UI claims to total unemployment.

D. IMPLICATIONS FOR UNEMPLOYMENT INSURANCE POLICY

No single cause explains the dramatic decline in UI claims during the 1980s. There is no "quick fix" that will return claims to their pre-1980 levels. Such causes of the decline as the reduction in the fraction of the unemployed from manufacturing industries and the changing regional pattern of unemployment are not reverseable by UI policy (but see our discussion below). Other changes such as the taxation of UI benefits and the availability of extended benefits programs are potentially subject to policy manipulation, but these are policies that should be evaluated from an overall perspective, not only from the perspective of the adequacy of the UI system's coverage of the unemployed. Hence, our findings on the effects of changes in various state laws on UI claims (which, in overall terms, explained about 40 percent of the decline) are those that are most relevant to the formulation of UI policy.

However, as we have shown, these findings on changes in states' laws do not tell a simple story. In some cases states did tighten eligibility requirements and reduced potential durations during the 1980s. Increased nonmonetary denials of benefits also had some impact on UI claims. These changes did not happen in a vacuum, however. Presumably the states had good reasons for the policy choices they made. Any attempt to reverse the decline in UI

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[1]These figures are roughly consistent with those of Blank and Card (1989) who show that the wage replacement ratio under UI is an important determinant of the takeup rate among UI-eligibles.

claims by encouraging the states to relax eligibility standards will therefore require a detailed analysis of the alternative options that might be followed. It is difficult to judge on a priori grounds which changes would achieve the goal of assuring adequate and cost-effective coverage of the unemployed.

If states were to be encouraged to expand their UI coverage of the unemployed, our results suggest that special attention might be directed to states where UI coverage is currently relatively low. As Table II shows, states such as Florida and Texas currently cover only about 20 percent of the weeks of unemployment experienced in these states. Because these states are also those in which the labor force is growing most rapidly, such low levels of coverage have an increasing impact on the national figures. A brief examination of UI laws in these low coverage states does not suggest, however, that the low levels of UI claims result from especially stringent rules for monetary eligibility. Indeed, Florida and Texas have some of the least restrictive provisions of any of the large states in our sample. Where these states are restrictive is in offering relatively short durations of benefits to many of their claimants and in having relatively high rates of denials of benefits for nonmonetary reasons (e.g. denials for misconduct and voluntary separations). Whether these (and other) states should be encouraged to relax such rules would also seem to require a detailed examination of the relative merits of such provisions as a way of targeting unemployment benefits toward certain categories of workers.

References

Card, David and Blank, Rebecca, "Recent Trends in Insured and Uninsured Unemployment : Is there an Explanation?", National Bureau of Economic Research Working Paper No. 2871, March, 1989.

Corson, Walter and Nicholson, Walter, An Examination of Declining UI Claims During the 1980s, Unemployment Insurance Occasional Paper 88-3. U.S. Department of Labor, September, 1988.

Vroman, Wayne, "The Decline in Unemployment Insurance Claims Activity in the 1980s", Urban Institute, December, 1990.

TABLE I

ALTERNATIVE MEASURES OF CHANGES IN UI COVERAGE OF THE UNEMPLOYED, 1971-1986

	Mean 1971-1979	Mean 1980-1986	Percent Change
UI COVERAGE			
Ratio of State UI Weeks Claimed to Total Unemployment	.407	.346	-15.0**
Ratio of All Weeks Paid Under State UI to Total Unemployment	.340	.301	-11.5**
Ratio of New Initial Intrastate UI Claims to Total Unemployment	.0333	.0269	-19.2**
Ratio of UI First Payments to Total Unemployment	.0231	.0193	-16.5**
SPECIAL PROGRAMS			
Ratio of All UI Weeks Claimed Under Extended Benefits Programs to Total Unemployment[a]	.0956	.0491	-48.6**
Ratio of Claims Under UCFE to Total Unemployment	.0067	.0031	-53.7**
Ratio of Weeks Claimed Under UCX to Total Unemployment	.0142	.0033	-76.8**

[a]Extended benefits programs include EB, FSB, SUA, and FSC.

**Difference is statistically significant at the .01 level in a two-tail test.

TABLE II

ADJUSTED MEAN RATIO OF WEEKS CLAIMED UNDER UI STATE PROGRAMS TO TOTAL UNEMPLOYMENT FOR 11 LARGEST STATES, 1971-1986

	Adjusted Mean 1971-1979	Adjusted Mean 1980-1986	Percent Change
California	.399	.419	+5.0*
Florida	.255	.200	-21.6**
Illinois	.499	.301	-39.7**
Massachusetts	.507	.452	-10.9**
Michigan	.468	.292	-37.6**
New Jersey	.536	.433	-19.2**
New York	.481	.381	-20.8**
North Carolina	.340	.291	-14.4**
Ohio	.341	.308	-9.7*
Pennsylvania	.549	.433	-21.1**
Texas	.208	.194	-6.7

NOTE: The data are adjusted by regression to control for seasonality and the total unemployment rate.

*Difference is statistically significant at the .05 level in a two-tail test.
**Difference is statistically significant at the .01 level in a two-tail test.

TABLE III

COMPONENTS OF OBSERVED DECLINE IN THE UI CLAIMS RATIO IN THE 1980s

Effect	High-Range Estimate: Change Attributable to Effect	High-Range Estimate: Percent of Total[a]	Low-Range Estimate: Change Attributable to Effect	Low-Range Estimate: Percent of Total[a]
Total Change Based on National Data	-0.0618	100.0	-0.0618	100.0
Economic Effects				
Increase in TUR	+0.0037	(6.0)	0.0000	0.0
Decline in Unemployment from Manufacturing	-0.0108	17.5	-0.0019	3.1
Shift in Geographic Distribution of Unemployment	-0.0099	16.1	-0.0099	16.1
Changes in Federal UI Policy[b]				
Partial Taxation of Benefits	-0.0102	16.5	-0.0070	11.3
Less Generous Extended Benefits Programs	-0.0042	6.8	0.0000	0.0
Changes in State UI Policy				
Increase in Qualifying Weeks	-0.0065	10.5	-0.0021	3.4
Change in Gross Wage Replacement[c]	-0.0012	1.9	-0.0024	3.9
Reductions in Maximum Durations	-0.0030	4.9	-0.0030	4.9
Reduction in Voluntary Separation Denial Rates[d]	-0.0081	13.1	0.0000	0.0
Increase in Misconduct Denial Rates	-0.0067	10.8	-0.0015	2.4
Increase in Disqualifying Income Denial Rates	-0.0067	10.8	-0.0053	8.6
Reduction in Worktest Denial Rates	+0.0078	(12.6)	+0.0005	(0.8)
Changes in Unemployment[e]				
More Accurate Measurement of Unemployment in 1980s	-0.0078	12.3	-0.0009	1.5
Total Change Explained	-0.0634	102.6[f]	-0.0338	54.7
Total Change Unexplained	—	—	-0.0283	45.8

For Sources of Estimates and Footnotes, see Table VI.1 of Corson, Walter and Walter Nicholson, "An Examination of Declining UI Claims During the 1980s," Unemployment Insurance Occasional Paper 88-3, U.S. Department of Labor, 1988.

Acting Chairman DOWNEY. Mr. Nicholson, you said one of the ways to look at this is to look at the States that have the lowest rates of recipiency? You say that looking at those States, you find that they have lower rates. But it is not because of eligibility requirements. It is because of something else. They disqualify workers in a number of different ways.

Does that argue for us to have some sort of national plan in terms of disqualification rates that we should apply across the board to all the States?

Mr. NICHOLSON. I have not extensively looked at the disqualification rules in all the States. I know they are very complicated and very specific. I don't believe that there is a data base that would tell us what the provisions are in each State.

In fact, I can't exactly tell you what it is about the Texas and Florida laws that lead to these large number of denials. The rates are considerably larger in those States. I can't be sure what causes that.

In the absence of any detailed analysis, it is hard to say whether these laws are desirable ways of focusing benefits on workers or undesirable restrictive provisions.

Acting Chairman DOWNEY. Is it a good idea to have some States that have very low rates of participation in this program than other States that have higher rates?

Mr. NICHOLSON. I think you would have to ask what the States are trying to achieve with their various unemployment insurance laws. For example, the previous witness testified to the fact that States have these provisions in their eligibility laws that require earnings in various quarters.

To examine the desirability of that, you have to understand why they have those provisions in their laws. What are they trying to do to focus benefits?

I think the whole area of State laws is a complex one. It is hard to generalize to say any particular State has been unnecessarily stringent in this regard. I think you have to ask what are they trying to accomplish.

Acting Chairman DOWNEY. I guess that begs the additional question. Do you think it is a good idea to have this Federal system where the States can restrict benefits or change the benefit eligibility requirement so you have larger numbers of workers covered in some States and smaller workers covered in others? Is that an effective countercyclical tool? Is that what the authors of the act envisioned?

Mr. NICHOLSON. I think that is a difficult question to answer. Clearly the declining ratio of UI claims to total unemployment has reduced the countercyclical ability of the program.

The fact that the States have such disparity provisions suggests they have different labor markets and they are trying to achieve different goals with their programs. Whether the States of Texas and Florida are unnecessarily restrictive is hard to say. They have very different labor markets than Michigan and Illinois.

Acting Chairman DOWNEY. Ms. Long, let me ask you the same questions I put to the good professor here. Do you think this program is working when it has such disparity levels of eligibility?

Ms. LONG. Those are difficult questions to answer. As it is operated now, the States have a lot of discretionary control over what is done in the program. They appear to be targeting different populations. It is not possible to say whether it is right or wrong, but they are addressing them.

Acting Chairman DOWNEY. Are States like Illinois and Michigan, are they dramatically different labor markets?

Ms. LONG. There is evidence in terms of labor force and industrial composition, mining and construction and manufacturing industries, that the types of unemployment and employment in those States can be quite different from Florida, which is more service oriented.

Acting Chairman DOWNEY. So, do I conclude there are dramatically different labor markets, but I am a dramatically different unemployed person, and I am not going to be eligible for benefits in one or the other? What I am trying to get from you other than that this is a difficult question, which I think you have adequately established, is how we answer this issue of whether or not this is an effective national program.

I am thinking that it is as if the Constitution has not been ratified yet and we are living with the Articles of Confederation. Each State has this unique and different labor market. My guess is there are some differences. But the recession affects a country. It just doesn't affect a State. It may affect some States more than other States.

Tell me what is wrong if I introduced a piece of legislation that said I don't like the fact that some States disqualify workers for these reasons, and I am going to nationalize this aspect of the program. I am going to say you can't disqualify workers for certain reasons. And we are going to have a different way you pay benefits to people who have been out of work for a long period of time. Am I going to harm the system if I do that?

Ms. LONG. You do take away some of the State control for funding benefits.

Acting Chairman DOWNEY. So what?

Ms. LONG. That is a choice.

Acting Chairman DOWNEY. What is wrong if I take away some of the States' authority here? They have demonstrated in the last 10 years that they have not figured out that adequate reserves are a good idea.

Why should I trust them to make any decisions since they have in my mind made some bad choices in the last few years? Why do I want to give them additional discretion?

Ms. LONG. I don't have an answer to that.

Acting Chairman DOWNEY. Professor Nicholson, have the States given me reason to trust them in the last 10 years with the decisions they have made about how they operate their program?

Mr. NICHOLSON. We tried to look at the States which were especially stringent in cutting back in various provisions or increasing monetary eligibility rules. First of all, the changes were relatively marginal.

Second, we didn't find very egregious things being done by the States. They are making small adjustments here and there in their

laws. But I think the political pressures within the individual States probably prevent terribly restrictive things from being done.

That doesn't say specific disqualification laws might not be a subject of concern for your committee. And to address whether a particular type of disqualification should be discouraged at the national level I think makes some sense.

Acting Chairman DOWNEY. You don't disagree with the proposals? Some testimony we received from the Brookings Institution said that there are 20 percent fewer people currently eligible in this recession than in the last recession. You don't argue that there are fewer people receiving benefits now?

Mr. NICHOLSON. There is no question about that. That comes from a variety of reasons. If one were worried about the countercyclical stabilizing effect of unemployment benefits, one might think about adapting various kinds of policies to deal with that.

Acting Chairman DOWNEY. Do you think there is a national macroeconomic problem with this program?

Mr. NICHOLSON. I am not aware of what the literature is on the size of the stabilizing effects of unemployment insurance.

Acting Chairman DOWNEY. If you were teaching a course on this, what would you say if a student asked you if this was a problem here? We have a countercyclical program that is to provide benefits. It is now providing 20 percent fewer benefits.

Is that a problem, professor?

Mr. NICHOLSON. I would think it is because there is a reduction in the built-in stabilizers in the economy. How that compares with stabilizers provided through food stamps or the decline in tax collections over the business cycle, that is way beyond what I am prepared to testify on.

Clearly there is a decline in the countercyclical nature of UI. That is what one should address when one thinks about extended benefit programs.

Acting Chairman DOWNEY. Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman.

I would like to address a question to Mr. Stoner in a moment.

Just to pursue your line of questioning, I wonder, professor, if perhaps we need to segregate the two questions. You have a concern, I think, for the individual at the margin of qualification for the program. Clearly if someone falls off, is no longer eligible, that is a catastrophe for that individual. But that is at the individual level, and we need to address our attention to that.

So for a family, as you very accurately pointed out, we cannot ever forget the impact unemployment has on an individual family. But then when you get to, as you put it, the macro level, we face the question of what is the economic impact of additional coverage when you are on the way down or on the way back out of a recession. Is there even data to tell us whether extended benefits has an effect on bottoming out of the economy, avoiding a further decline in recession, or whether that has a regional impact or a national impact? Is it big enough, that percentage of persons at the margin, to make a difference?

Mr. NICHOLSON. I think in terms of countercyclical policy, the question of providing additional benefits to people at the margin is——

Mr. CHANDLER. Pull your mike closer.

Mr. NICHOLSON. The issue of providing additional benefits to people at the margin is tricky to judge. Then you have to understand why they are at the margin, what is it that makes them at the margin of eligibility under these programs. Would providing benefits to them give you a lot of countercyclical punch?

Extended benefits, go to a different group of people, to the long-term unemployed who have been eligible for unemployment benefits and have exhausted their benefits. If that were the approach to countercyclical policy one took, it would be a different population you would be aiding. That might be more of a countercyclical kind of policy because it would be triggered on by unemployment-related indicators.

Mr. CHANDLER. The thing that I certainly know from the experience in our State is that you have, as you point out, those periods of time when an industry will just simply suffer layoffs. Perhaps it is a manufacturing industry. There is every intention of continuing the company. Eventually those people will be hired back, hopefully. In most cases, they will be receiving unemployment benefits during the time that they are laid off.

In our State, we are undergoing a situation where there are people for whom there is no hope of going back to work because the timber industry has been hit by the Endangered Species Act, which requires us to set aside large areas of timber. Mr. Stoner is nodding. He knows the situation very well.

For these workers there has to be something very different than just 6 months, perhaps an additional 3 months of unemployment insurance. Then, as the chairman pointed out, you are at the margin.

You may well have a State that makes a decision that you must have worked for a longer period of time or a greater number of hours to qualify for additional benefits. That is going to have a disproportionate effect on the low-skilled worker, the worker with less education, the most vulnerable people in this society.

The more I know about this unemployment insurance program, the more I am becoming concerned about its inflexibility. I don't think we ever pay benefits to people who don't need it. But I can tell you, we sure end up reducing or eliminating benefits to people who need it a hell of a lot more than some of the others. If there is anything we ought to be looking at on this committee, it is that.

As we address this problem of the timber industry in particular, we can factor into the equation the fact that jobs for many people are completely gone.

My time is up, Mr. Stoner. I apologize for the speech. But I think it is something we need to consider.

I like your idea about the contingency fund. Having been in some of your offices in the State, I know the cramped conditions and dedicated workers trying to put up with the horde of people they are now facing. I think we are going to do everything we can to assist you with that.

Mr. STONER. I appreciate that.

I would like to echo what you indicated. We are facing a new dilemma. That is with the timber industry. The difficulties of having, if you will, the flexibility of doing what we can realizing that there

is an industry where people will not be able to return to work. Not only do you have the responsibility of retraining those individuals, but how do you take care of them during that interim process.

Mr. CHANDLER. I thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

I don't really know whether to ask Ms. Long or Mr. Nicholson. Are there any real studies that have been done about the connection between reducing unemployment insurance and the effect on welfare systems?

Ms. LONG. I don't know of any studies that have looked at that directly. I have done some work looking at participation in multiple assistance programs. There is little participation in AFDC by recipients of UI. I have not looked directly at the impact of declining UI recipiency on AFDC caseloads.

Mr. MCDERMOTT. You are saying if you drive people off the unemployment insurance program, they don't ultimately wind up on public assistance?

Ms. LONG. No. I was saying we found very little overlap. I have not looked at who would be eligible for UI under more generous program rules and whether they are now receiving AFDC. I am not aware of a study that has looked at that.

Predicting eligibility for unemployment insurance is very difficult. Identifying that population is difficult to do.

Mr. MCDERMOTT. Because of the State-by-State differences, it is hard to predict?

Ms. LONG. And the information you need to be able to do so. You need the work history information. It isn't available in any data sets that I am aware of.

Mr. MCDERMOTT. If you look at this problem as one in which you are trying to provide an adequate standard of living for people who were once employed, and you force them off the unemployment insurance or drop them off the unemployment insurance, it is difficult to imagine that they would not seek other types of public assistance.

We did our first revision back in 1977 and got rid of voluntary quits and a few other things at that point. We were ahead of the curve of what went on in the 1980s. If you look at that, it seems to me those people have to go somewhere to get food or shelter. It would be surprising to me that there was not some connection with moving down on to the welfare system.

You are unaware of any study or any attempt to deal with that connection?

Ms. LONG. I am not aware of any studies.

Mr. MCDERMOTT. The welfare system is paid for half by the Federal Government and half by the States. There would be some strong advantage to the States to shift the people off their unemployment. That is off the backs of their employers and on to the Federal Government's responsibility. You are not aware of any studies on this?

Mr. NICHOLSON. Unemployment benefits generally are much higher than welfare benefits. There have been a couple of court cases which have said individuals eligible for both have essentially

the choice of which to take. There were some cases on that in the late 1970s.

I am not aware of studies that tried to actually follow the path of people off unemployment insurance. They tend to be different groups of workers. The eligibility standards are very different for welfare and unemployment insurance.

Mr. McDermott. As we get into this longer list, as you talk about the issues that reduce it, like the lack of unionization and drop in the wage scale in so many areas, the differences between people who are on unemployment and those who are in and out of the welfare system become more blurred, it seems to me.

Leaving the welfare system to go to work at a $5-an-hour job begins to be problematical. Why should I go to work if I can stay on welfare and get essentially the same benefits as working full time or working full time and losing the job and going on unemployment and getting minimum benefits?

There is a whole interaction there that needs to be explored. It is probably difficult because we have essentially allowed States rights to decide without control in this area. In welfare we have set standards, but we have never set standards in unemployment.

Mr. Nicholson. The main interaction with welfare would be with the AFDC unemployed parent program rather than AFDC itself.

Mr. McDermott. In 1981 we wiped it out and said to 14,000 people, "We don't care about you." Three years later we put it back in because we had so many problems as a result of wiping out the AFDC program. I know there is a connection in there. I just don't know to figure out exactly what it is.

Acting Chairman Downey. Mrs. Johnson.

Mrs. Johnson. Thank you.

I am struggling to get a clear picture of who is no longer in the system.

Mr. Nicholson, you said in your testimony that most of the decline in claims occurred because individuals, for whatever reason, were less likely to file; that the fact that this program is providing 20 percent less benefits is the result of fewer people filing rather than a reduction in the amount of time that they are receiving benefits or and in fact the charts show that the benefit percent, the benefit hadn't changed much in terms of the benefit of wage replacement.

Later on in your testimony you say one of the factors in the decision to file is our decision that offsets pension benefits against unemployment benefits. Certainly in my part of the country with the tremendous increase in unemployment among mid-life managers, a lot of those mid-life managers are receiving early retirement payments that are probably significantly above pension benefits.

Do we know what percentage of this group that aren't receiving benefits under UI are receiving benefits under other programs?

Mr. Nicholson. The——

Mrs. Johnson. In other words, what portion of that nonfiling problem is a nonneed problem?

Mr. Nicholson. The short answer to your question is we don't know the answer. A little bit longer answer is that the connection between the pension offset provisions and unemployment insurance

claims is a very complicated one. We attribute some of the decline of unemployment insurance claims to that provision.

It could be much larger than we say. We had difficulty figuring out how to apportion that decline. Particularly complicated is the way the States treat Social Security. This varies dramatically from State to State, and probably within States it varies somewhat.

We don't know the answer to how many workers are getting other benefits. There clearly has been a very large decline in older workers collecting unemployment benefits. Of course there has been a large decline in unemployed older workers anyway.

Mrs. JOHNSON. What else do we know about this group? How many in this group are part-timers who are now out of the system because the part-time requirements are more difficult to meet? Do we know that? What can you tell me about this group that is not filing?

Ms. LONG. There is a supplement to the CPS that was done recently. Unfortunately it has not been analyzed thoroughly. A colleague of mine has done work on it. Unfortunately, I am not familiar with it. I can arrange with him to send you a copy of what he has written, which does look at who is not filing.

Mrs. JOHNSON. Who these folks are?

Ms. LONG. People that do not have a job in the CPS were interviewed and asked why they did not file for benefits. There are reported reasons for not having filed. He has not had time to analyze the data completely.

Mr. NICHOLSON. All the States have what are called partial benefit provisions which offset unemployment benefits against earnings from, for instance, part-time jobs. There has been a fairly large increase in the number of partial benefit recipients. That may mask a much larger change in the relationship between part-time employment and unemployment insurance.

I don't know that there has been any specific study the issue. There may well be a lot there. The changing nature of the labor market is important to understand. Unemployment insurance was designed in the thirties for a largely manufacturing work force. We are not in the 1930s anymore.

Mrs. JOHNSON. Just to clarify, in other words, are you saying that if someone loses their job and takes a job part-time, that is offset against unemployment benefit eligibility, so that some of the nonfilers could be working part-time?

Mr. NICHOLSON. Yes.

Mrs. JOHNSON. And preferring that to collecting?

Mr. NICHOLSON. Yes. They would have to earn basically more than their weekly benefit amount or, in some States, the weekly benefit amount plus $30. Then they become totally ineligible for unemployment benefits.

Mrs. JOHNSON. It will be interesting to see if we could find out how much. I would guess that is a bigger part of the problem.

Mr. Stoner, do you have any comment?

Mr. STONER. No, I don't.

Mrs. JOHNSON. Thank you.

Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Thank you, Nancy.

Let me just try and follow up. You said some workers that do not apply for benefits because they do not believe they are eligible; right?

Ms. LONG. A common response was they do not believe they are eligible.

Acting Chairman DOWNEY. Do we have indication of what percentage of those people are in fact eligible?

Ms. LONG. No. One useful analysis would be to match the survey respondents against program records and see what their work history would suggest in terms of eligibility.

Acting Chairman DOWNEY. They were not discouraged by the fact that there would be delays?

Ms. LONG. At the time of the survey, which was early 1990, they did not report that they were not filing either because of a stigma attached to receipt of unemployment benefits or delays in filing for benefits.

Acting Chairman DOWNEY. I am asking you to speculate, obviously. Could it be given the most recent additional problems with the employment service, the waiting period, the long lines, that that might have something to do with discouraging them?

Ms. LONG. For this sample, that was not cited as a reason.

Acting Chairman DOWNEY. Thank you. This was helpful testimony.

The subcommittee will next hear from a panel comprised of Rich McHugh, the International Union, United Automobile, Aerospace and Agriculture Implement Workers of America. He is the associate general counsel. Diana M. Pearce, Women and Poverty Project; Mack McKinney, the Non Commissioned Officers of the Association of America, and Joseph C. Luman, the Washington counsel of the National Association of Personnel Consultants.

Rick, why don't we begin with you.

STATEMENT OF RICHARD McHUGH, ASSOCIATE GENERAL COUNSEL, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURE IMPLEMENT WORKERS OF AMERICA

Mr. MCHUGH. Mr. Chairman and members of the subcommittee, my name is Richard McHugh and I am an associate general counsel with the International Union, UAW in Detroit, Mich. On behalf of its members and their families, the UAW thanks the subcommittee for this opportunity to testify on the critical subjects of unemployment insurance coverage and financing issues.

Mr. Chairman, the UAW has submitted a written statement for the record. Our written statement sets out our proposals for a comprehensive program of unemployment insurance reform. Our recommended reforms arise from our understanding of the shortcomings of our current unemployment insurance system.

In my oral statement I will concentrate on the effects of State and Federal law changes on the decline in the proportion of the unemployed receiving a UI benefit in the 1980s.

At the Federal level, we believe two actions were key. First, the passage of OBRA in 1981 effectively eliminated the Extended Benefits program. The elimination of any support for the long-term job-

less has certainly contributed to the decline in the proportion of the unemployed receiving benefits.

The second key action of the Federal partner was the adoption of interest on Federal loans and related solvency provisions in the early 1980s. While the reasons for congressional concern were valid, the large interest-free loans outstanding to States which had accumulated in the 1970s, the effects of these provisions at the State level have been widespread.

During the 1980s a large number of States adopted restrictive legislation. The two most common restrictions were increased earnings eligibility requirements and stiffer disqualifications penalties. The GAO has reported that 44 of the States adopted one or both of these restrictions between 1981 and 1986.

Some of these States were required to act by the Federal solvency provisions. Others did so to avoid Federal loans. In nearly every case, the States were in competition with other States to lower their UI costs.

In order to better understand the effects of these State changes, we examined the State UI laws of the six States which paid benefits to the highest proportions of their unemployed workers over the decade of the 1980s and the six States which paid fewer than 1 in 4 of their workers for the decade. Exhibit 3 gives the figures for all 51 States.

We have found that the top six States require lower earnings for workers to quality for an unemployment benefit as compared to the lowest six States. Exhibit 4 summarizes our results. Except for Massachusetts, the top six States require 8 percent or less of the State's average annual wage for monetary eligibility. Even in Massachusetts, a worker can qualify with as little as $1,200 in base period earnings, assuming this amount equals 30 times his or her weekly benefit amount.

In contrast, the lowest States require between 12 and 38 percent of the State's average annual wage for basic qualification.

We also examined the effect of stricter disqualification penalties on the decline in coverage. There are two basic types of disqualification provisions. A suspension or denial period involves a period of weeks in which benefits are not paid. At the end of the denial period the worker starts getting unemployment benefits if he or she is still unemployed. A full spell or durational disqualification requires that a claimant find other work and earn a specified amount or, in some cases, earn a specified amount over a certain number of weeks. In other words, the disqualification applies for the duration of the current spell of unemployment.

Despite the severity of durational disqualifications, 20 States adopted durational disqualifications for misconduct discharges between 1976 and 1990 and 16 States adopted these provisions for voluntary leavings over this period. Currently, 39 States have durational disqualifications for misconduct and 47 States have them for voluntary quits.

Again, we found that the laws of the States which pay the highest proportion of their unemployed were more lenient than the laws in the lowest States.

The lowest States all use durational disqualifications for refusals of work, voluntary quits, and misconduct discharges. In contrast,

the highest States use denial periods in some cases, and in general, require lower earnings levels to satisfy the durational disqualifications they have.

In conclusion, Mr. Chairman, we are convinced that both State and Federal legislative changes have contributed importantly to the decline in the proportion of the unemployed who receive benefits in the United States. Accordingly, the UAW supports Federal standards to limit State flexibility and to restore the effectiveness of our Nation's unemployment insurance system to assist the jobless and to preserve spending power in an economic downturn.

Mr. Chairman, that concludes my testimony. Let me thank you again for the opportunity to appear. I would be happy to answer any questions.

[The prepared statement follows:]

**STATEMENT OF RICHARD McHUGH, ASSOCIATE GENERAL COUNSEL
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE,
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON HUMAN RESOURCES
U.S. HOUSE OF REPRESENTATIVES
ON THE SUBJECT OF UNEMPLOYMENT INSURANCE
COVERAGE AND FINANCING ISSUES**

February 20, 1991

Mr. Chairman, my name is Richard McHugh and I am an Associate General Counsel with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). On behalf of its members and their families, the UAW thanks the Subcommittee for the opportunity to testify on the critical subject of unemployment insurance coverage and financing issues. Mr. Chairman, the UAW also wishes to express its appreciation for the leadership you have demonstrated over the last four years in this area. As a result of your efforts, the sorry state of our nation's unemployment compensation system is more widely acknowledged within the Congress and by informed observers in the field. The UAW pledges our best efforts to work with the members of this Subcommittee to quickly enact meaningful unemployment insurance reform in order to assist the hundreds of thousands of newly unemployed workers affected by the current recession.

In our view, the current recession is unlikely to be the short, painless affair which some have predicted. It is worth remembering that economists were slow to realize the depth of the 1981-82 recession. Changes in the economy during the 1980s are likely to produce a recession which is different from previous recessions in important ways. Unlike previous recoveries, the 1980s saw an increase in inequality and a decline in real median weekly earnings. The United States lost two million manufacturing jobs since 1979, jobs that traditionally pay above average wages and boost the whole economy. Debt has ballooned. Business Week recently reported that in 1989 and 1990 the ratio of private debt to GNP was about 1.4 to 1. In 1981 and 1982, that ratio was only 1 to 1. And the war adds additional uncertainty to an already shaky economy.

Already, many workers in the automotive, aerospace, and related industries represented by the UAW have received indefinite or permanent layoff notices. Even if we avoid a recession of the gravity we experienced in the early 1980s, there is no question that the recession will be hard hitting in most regions of the country and no sectors of the economy will be spared. The Administration, after resisting the label of recession for several months, now projects that more than 1.1 million additional workers will be unemployed during the current fiscal year over their projections of last year.

Over 800,000 workers have lost their jobs over the last four months, placing an increased strain on state unemployment agencies and trust funds. Administrative funding for the current fiscal year is well short of the levels required by the states to operate their programs in light of these new claims. Unless Congress acts swiftly, the existing shortcomings of our nation's unemployment compensation system will result in needless delays, hardships, and suffering on the part of unemployed workers, their families, and their communities.

Shortcomings In The Unemployment Insurance System

We are entering this recession with our unemployment compensation system in its worst shape ever. Trust funds in many states have inadequate reserves, state and federal legislative actions have cut the proportion of the unemployed eligible for unemployment benefits, and benefits are too low to adequately assist those who receive them. The state unemployment insurance agencies do not have sufficient administrative funds to operate their unemployment insurance programs effectively.

The federal-state unemployment insurance system was enacted in the mid-1930s in recognition of the enormous costs borne by unemployed workers as a result of economic, political and social forces over which they have no control. Two major goals were set: first, to cushion workers against economic hardship when they become unemployed; second, to bolster purchasing power when total spending is declining, thereby helping to automatically stabilize the economy when it is weak. These twin goals are closely related -- an adequate level and duration of benefits is required to ease private hardships and strengthen a community's purchasing power during a period of economic decline and increasing unemployment.

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Not only have unemployed workers and their families suffered from the shredding of the safety net provided by the unemployment insurance program, but employers and their businesses, the communities in which the unemployed live and ultimately the entire economy is hurt by the shrinkage of the unemployment insurance system. The costs arising from unemployment and the exhaustion of benefits are being borne privately in the homes of the unemployed -- private costs that range from financial insolvency and the inability to pay for urgently needed medical care to the rise in intra-family tensions and health care problems. The costs also are being borne socially as the long-term impacts of the additional welfare costs, higher crime, community instability, and mental health problems associated with increasing unemployment begin to spread.

Currently, trust funds of several states do not have sufficient reserves to pay benefits throughout the recession. If past recessions are any indicator, this means the unemployed workers in those states will be faced with unemployment cutbacks during the downturn to reduce benefit payments and reduce or prevent federal borrowing by states. This not only hurts the unemployed workers and their families, but further reduces the countercyclical effects of the unemployment compensation system.

If the current situation persists, only 1 in 3 unemployed workers will draw unemployment benefits in the current recession. This is a decline from 1980, when one half of unemployed workers were paid benefits. In about a dozen states, fewer than 1 in 5 unemployed workers will receive a check. At the same time, over half the unemployed workers in Rhode Island, Alaska, and Massachusetts will be compensated during their spells of unemployment.

Those workers who do receive unemployment benefits will receive an average benefit check of about $160 a week, which will replace only about 35 percent of average weekly wages. Again, in some states the situation is far worse than the average. In a dozen states, average benefits replace a third or less of that state's average wages. California's average weekly benefit for 1990 was $123, which replaced only 26 percent of California's average weekly wages. In Indiana, the average weekly benefit of $105 replaced only 27 percent of the state's average wage.

In comparison, workers in Canada, the United Kingdom, France, and Germany receive much better protection from their nation's unemployment compensation systems. These industrialized countries pay higher benefits to a larger percentage of the unemployed for a longer period of time than in the United States. See Exhibit 1.

In the UAW's view, U.S. workers deserve a similar level of assistance to those in Canada and Europe. Instead, over the last decade our unemployment compensation system has moved in the wrong direction. Sadly, in large measure, the shortcomings in the unemployment insurance system are the result of legislative actions. At the federal level, restrictions on extended benefits, interest on federal loans, new solvency requirements, and taxation of benefits have contributed to the decline in the unemployment compensation system. At the state level, the majority of states adopted tighter earnings requirements or tougher disqualification provisions to avoid or reverse solvency problems. Some states froze or reduced unemployment benefits. The time has come to reverse the trends of the 1980s and restore our unemployment compensation system's ability to protect jobless workers and to counteract an economic downturn. In order to do so, the UAW has a number of suggested reforms designed to address these shortcomings.

Extended Benefits Reform

In recent years, the long-term unemployed have been without an effective extended benefits (EB) program. Under the EB program, a jobless worker who has exhausted all regular state benefits may receive up to 13 additional weeks of benefits. EB is intended to ease the additional hardships which fall on unemployed workers during a serious downturn in the economy. When hard times are widespread, the length of unemployment spells increase as jobs become more scarce. EB helps fill the gaps which occur when state benefits are exhausted.

In order to offer extended benefits, a state's unemployment level must exceed a threshold. The 1981 Omnibus Budget Reconciliation Act raised the EB threshold, making it nearly impossible for states to qualify for extended benefits. As a result, EB has not been available during periods of serious economic slowdowns in many states over the last decade.

Before the changes in 1981, a state could trigger on extended benefits if its insured unemployment rate (IUR) was above 4 percent and if its IUR was 120 percent higher than the state rate for the previous two years, or if the state insured unemployment rate was above 5 percent. The 1981 changes raised both of these threshold rates by a full percentage point and eliminated a national trigger by which all states would qualify for extended benefits when the national IUR was above 4.5 percent.

The effective elimination of EB has undoubtedly contributed to the decline in the proportion of the unemployed receiving unemployment insurance. One step which would reverse the decline in the proportion of the unemployed receiving unemployment insurance would be the restoration of the EB program, or the adoption of an effective replacement for EB.

Mr. Chairman, last year you introduced H.R. 3896, which was co-sponsored by Representative Pease and Representative Levin. H.R. 3896 included a positive program of EB reform, which the UAW supported. The program would have set more realistic trigger levels for the EB program, exempted EB outlays from sequestration, and raised the ceiling on the EB trust fund account in order to assure adequate funding for EB.

The enactment of any EB reform program must include the adoption of realistic EB triggers. Many observers believe that the use of a total unemployment rate (TUR) trigger would improve the accuracy of our EB triggers. The UAW will support any measure of unemployment as an EB trigger, so long as it is set at a level which will provide EB during periods of economic slowdowns.

The UAW also believes the Subcommittee should consider making the EB program completely federally funded. This would relieve the added pressure on state trust funds caused by paying its EB share when the state is experiencing high unemployment.

In addition to the enactment of realistic EB triggers, a more longstanding restriction on EB should be reexamined. This restriction is the trigger provision which requires a state's unemployment rate to be 120 percent of the rate for the comparable period two years earlier. This restriction cuts off EB in a state which has relatively constant, but high, levels of unemployment.

For example, in June 1983, Michigan triggered off the EB program despite a total unemployment rate of 14.6 percent. Ohio triggered off EB in May 1983 when unemployment was 12.9 percent. New York never triggered on EB during the 1982-83 recession despite an unemployment rate that reached nearly 10 percent in early 1983. Later in the decade, during the downturn in the oil industry, Louisiana triggered off EB in March 1987 despite an unemployment rate of 12.7 percent. While unemployment in Louisiana remained over 10 percent for two more years, extended benefits were never available to assist the long term unemployed. Rather than using the blunt instrument of the 120 percent provision, a more precise EB cutoff would require a tangible improvement in a state's current unemployment picture.[1]

The Need For Federal Standards

The last decade provides clear evidence that, in the absence of federal standards, our nation's unemployment insurance system will not adequately protect unemployed workers. In too many cases, the federal partner has required or encouraged states to restrict unemployment insurance eligibility. In other cases, the states have acted to limit the costs to employers of their unemployment insurance systems without sufficient regard for the income maintenance and countercyclical purposes of the program.

Unfortunately, unemployment insurance at the state level is not debated in terms of the twin national purposes of the program--providing a prompt wage replacement for unemployed workers and preserving the level of economic activity during a downturn.

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1 1980 and 1981 amendments to the EB program act as an incentive for the states to adopt restrictive legislation for their regular state unemployment insurance programs. These restrictions require states to pay for the federal share of EB or add certain features to a state's regular UI program before workers can receive EB. For example, current EB provisions encourage states to require at least 20 credit weeks for basic eligibility and impose a waiting week for state unemployment benefits. Ironically, since EB has been so tightly restricted in the last decade, some states have resisted the pressure to adopt these and other EB restrictions in their state programs. The existence of these restrictions furnishes a significant rationale for states to adopt restrictions in their regular unemployment programs in our experience. In the event that the Subcommittee decides to restore the EB program, these restrictions should be repealed.

Instead, state administrators, governors and legislators typically view unemployment insurance in the context of a "business climate" discussion, often in terms of how to bring one state's unemployment costs into line with those of its neighbors.

More often than not, the result of such discussions has been the enactment of higher earnings requirements for program eligibility and stricter disqualification provisions. As a consequence, the economic interests of the entire employer community in preserving the purchasing power of unemployed workers has not been properly considered in these discussions. Moreover, the states have, in effect, been in competition with one another to reduce their unemployment costs. As a result of this competition, the last decade has seen a steady deterioration in the unemployment insurance system's ability to satisfy its twin purposes.

The national goals of the unemployment insurance system deserve national protection to ensure that they are met. Therefore, the UAW urges the adoption of national standards to match national goals in four interrelated areas.

Trust Fund Solvency

During the 1980s, one of our nation's longest periods of relative economic stability, state trust fund solvency did not improve dramatically. While experts may disagree on the degree to which trust fund solvency currently is a problem in particular states, the fact remains that several states will be forced to borrow federal funds to pay unemployment benefits in the current recession. In other states, solvency concerns will arise, even if borrowing is not necessary. There is no state, to our knowledge, which has its trust fund in a position to pay adequate benefits to a reasonable proportion of its unemployed workers through a severe national recession.

There are two ways for states to achieve solvency. One way is to levy increased payroll taxes on its employers. Employers naturally oppose increased taxes. Employers view unemployment taxes as a cost of doing business which should be minimized to the greatest extent possible. In fact, the Congressional Research Service found in its January 1990 study that effective unemployment tax rates have fallen since 1984. In short, employers, governors, and state legislators, for the most part, have not sufficiently concerned themselves with the social insurance goals of unemployment insurance.

The second way for states to move toward solvency is to cut the size of their unemployment insurance programs. To do so, many states have adopted unemployment benefit freezes or reductions, restrictions on program eligibility, and stricter disqualifications. In its September 1988 report, the General Accounting Office found that 44 states adopted tighter monetary eligibility standards or stricter disqualification provisions between 1981 and 1987. Other states imposed benefit freezes or reductions and lowered the maximum number of weeks for which they paid benefits.

Typically, the issue of tax increases or program restrictions is faced during a period of economic downturn. As a result of the increased benefit payments and solvency pressures on the trust funds, unemployment insurance cost reduction is on the state's political agenda. In this setting, an "equality of sacrifice" theme develops. Workers are expected to give up a roughly equivalent amount in program reductions to match the increases in employer payroll taxes. Yet, a close examination of state level actions shows that benefit reductions and tax increases enacted in the 1980s have not sufficiently increased trust fund solvency.

In Michigan, two legislative packages of increased taxes and program reductions were passed in 1981 and 1982. The packages were negotiated and agreed upon by representatives of organized labor, business, the governor and legislature at a time when Michigan was the largest debtor state. These changes raised the monetary eligibility from 14 credit weeks to 20 weeks, increased the earnings required for a credit week from $67.00 to $100.50, froze the maximum benefit at $197 for four years, and reduced benefits from 70 percent to 65 percent of take-home pay through calendar year 1986. The percentage of workers receiving a benefit in Michigan fell from 36.2% in 1981 to 28.2% in 1986. Employers saw the maximum payroll tax rise from 9 to 10 percent, the taxable wage base rise in annual steps from $6,000 to $9,500 in 1986, and a solvency tax on negative balance employers.

Michigan's program temporarily helped the state's trust fund move toward solvency. Significant repayments of federal interest-bearing debt were made and some FUTA penalty taxes on employers were avoided. By 1986, actual benefit payments were lowered by $3.2 billion below the projected level before the 1982 amendments and employers had paid $1.6 billion in increased taxes.[2] Despite this, due to the structure of the state's experience rating

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2 Economic Alliance for Michigan, Unemployment Insurance Report (July 1986), 3-4.

system, Michigan's system did not reach solvency. Instead, as the high unemployment years of the early 1980s dropped out of the five year base period used for experience rating purposes, employer taxes began falling.

As a result, revenues were sufficient to pay current benefits and a portion of Michigan's old, non-interest-bearing debt, but not adequate to build trust fund reserves. By late 1988, neutral observers had concluded that further benefit restrictions would have little, if any, impact, on long-term solvency, since any "savings" achieved through benefit reductions would flow through the experience rating system and further reduce employer payroll taxes.[3] At this point, discussions of further legislative changes in Michigan's unemployment insurance system deadlocked. Michigan's system entered the current recession among the least solvent in the nation.

Illinois provides a different scenario. In 1983, faced with a large federal debt, Illinois passed a negotiated package of tax increases and benefit reductions. The package was designed to split the sacrifices 60 percent on business and 40 percent on workers over a three year period. An increase in the taxable wage base from $7000 to $8500 in the third year, a shift in the maximum tax rate from 5.7 percent to 7.1 percent, and a small surtax were expected to produce $1.15 billion in added revenue. On the workers' side, the maximum benefits were decreased with an expected "savings" of $780 million dollars.

In 1987, a second negotiated package was passed by the legislature. Under this five-year package, benefits were increased by 4 percent each of the first three years and employer payroll taxes were reduced an average of 7 percent. This was accomplished by switching the trust fund to a "pay as you go" system, which is designed to automatically raise taxes if the trust fund balance falls below $750 million. If the trust fund balance falls below $250 million, and other conditions are met, benefits are reduced by 10 percent. By taking this approach, Illinois turned away from the idea that trust fund solvency is reached by accumulating reserves prior to a recession. Instead, Illinois has opted to rely on the ability of its employers to pay for increased benefits at the time they are being paid to workers.

As a consequence, the Illinois trust fund collects additional revenues during an economic downturn, rather than during a recovery. In the view of many observers, this violates social insurance principles and could adversely impact Illinois' employers by raising taxes when they are already affected by a recession. To date, Illinois' trust fund has climbed from a reserve multiple of .13 at the end of 1987 to .55 at the end of the third quarter of 1990. In our view, the jury is still out on the "pay as you go" approach to trust fund financing.

In both Michigan and Illinois, the state trust funds were subjected to severe financial strains due to a national economic downturn. Forced to negotiate under these terms, the workers and employers of both states made sacrifices, but these sacrifices did not produce an enduring resolution of the solvency issue in either state. More importantly for today's hearing, the unemployment insurance systems in Illinois and Michigan were forced to cope with the problems caused by a national economic crisis by turning away from the national unemployment insurance system's goals.

In the long term, underfunding the unemployment insurance system helps keep benefits low and provides a rationale against efforts to improve the system. In periods of high unemployment, states will respond by restricting benefits and raising taxes at the time when both workers and employers can least afford it. Congress should adopt a trust fund solvency standard to require states to build up sufficient trust fund reserves during economic good times.

Most experts are agreed that a high cost or reserve multiple is currently the best indicator of trust fund solvency.[4] For a number of years, the Department of Labor has employed the 1.5 high cost multiple as its measure of solvency. We believe a 1.5 reserve multiple is a reasonable balance between prudence in building adequate reserves and the costs of collecting and holding excessive taxes in trust funds. A federal standard should require states to reach or exceed a reserve multiple of 1.5 in periods of economic recovery. Such a standard should be put in place gradually over a period of years.

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3 Economic Alliance for Michigan, "Memorandum Re: Solvency Issue," September 30, 1988.

4 The reserve multiple is calculated by dividing the ratio of net trust fund reserves to total covered payrolls by the ratio of benefit payments to total covered payrolls. See Wayne Vroman, Unemployment Insurance Trust Fund Adequacy (Kalamazoo, Michigan. The Upjohn Institute, 1990) at 44.

Benefit Adequacy

Simply adopting a trust fund solvency standard will not move the unemployment compensation system in the right direction. Unless a federal standard for benefit adequacy is also adopted, many states will reach solvency by simply restricting benefits. In fact, there is some evidence that this is already the situation. Seven states had high cost multiples over 1.5 in fiscal year 1990. Of these seven states, South Dakota and Oklahoma ranked in the bottom five states and Mississippi and New Mexico ranked in the bottom eleven states in terms of the proportion of their unemployed receiving a benefit. See Exhibit 2. In other words, these states have achieved solvency, at least in part, by reducing the scope of their unemployment programs.

In 1980, the National Commission on Unemployment Compensation recommended that Congress require states to have a maximum weekly benefit not less than two thirds of the state's average weekly wage. The Commission further recommended that Congress require that states pay weekly benefits which replaced, on average, at least 50 percent of the individual's wage. We urge the Subcommittee to adopt a similar approach.

In the eleven years since the National Commission made this recommendation, the need for its adoption has grown considerably. The national benefit replacement rate has declined from 36.1 percent in 1979 to 34.9 percent in 1988. The enactment of a federal benefit adequacy standard, in conjunction with a trust fund solvency standard, would be an important step in addressing the shortcomings of today's unemployment insurance system.

Monetary Eligibility

The states have not only reduced or frozen unemployment benefits over the past decade, but most have taken other legislative actions which have limited access to benefits. The Department of Labor contracted for two studies which have found that state administrative actions contributed to the decline in the proportion of the unemployed receiving unemployment insurance. A study by Mathematica Policy Research in 1988 estimated that state actions caused from 22 to 39 percent of the decline. More recently, Wayne Vroman of the Urban Institute completed an analysis of data collected by a special supplement to the Current Population Survey. Vroman likewise found that state statutory and administrative changes have probably contributed importantly to the decline in receipt of unemployment benefits over the last decade.

In order to further examine the effect of state law changes on the decline in the receipt of benefits, the UAW Research and Legal Departments examined the states which paid benefits to the highest and lowest proportions of their unemployed workers during the decade of the 1980s. Six states paid less than 1 in 4 of their unemployed workers a benefit, on average for the years 1980 through 1989. These states are Virginia (18%), Florida (19%), Texas (21%), South Dakota (21%), Indiana (25%), and Oklahoma (25%). In contrast, the top six states were Rhode Island (63%), Alaska (53%), Massachusetts (49%), New Jersey (45%), Vermont (44%) and Pennsylvania (44%). See Exhibit 3.

State unemployment insurance statutes were examined for two factors which commonly restrict a state's unemployment insurance programs: the monetary earnings requirement for benefit eligibility and the type of disqualifications imposed upon claimants. Exhibit 4 summarizes our findings.

The monetary earnings provision is the number of weeks of work or the amount of wages that a state requires for threshold unemployment insurance eligibility. These provisions commonly use a "base period" of 52 weeks or the first four of the last five calendar quarters to measure an individual's labor market attachment. Eligible workers with low base period earnings receive a correspondingly lower weekly benefit amount and a shorter duration of benefits, but workers who do not meet the earnings eligibility requirement get no benefits.[5]

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5 The National Commission was divided on the question of how much previous work should be required for receipt of the maximum 26 weeks of benefits. The Commission recommended to the states that "substantially" less than 39 weeks of work be required for 26 weeks of benefits and that no less than 14 weeks of work should entitle a claimant to 26 weeks of benefits. In an indicator of how far the discussion has shifted in the last eleven years, the Commission did not make any recommendations on minimum earnings requirements. The Commission did note a Department of Labor "recommendation" that a range of 14 to 20 weeks of work or the equivalent in earnings be sufficient to qualify for benefits, depending on each state's determination of what was appropriate for that state.

Comparing the current legal situation in the states with the highest and lowest percentages for receipt of benefits, it is immediately evident that, in general, states with the lowest levels have higher earnings requirements. See Exhibit 4.

Among the states which pay the highest levels of their unemployed workers, their earnings requirements are lower, in monetary terms, than those in the lowest states. For example, in Alaska a claimant must earn $1000 in total base period wages and must have wages in two of the four calendar quarters in the base period. Rhode Island adopted a somewhat stiffer earnings requirement in 1989 than was previously in effect. A claimant is required to earn two hundred times the $4 an hour minimum wage in a quarter, have base period wages equal to 1-1/2 times his or her high quarter wages, and have base period wages of 400 times the minimum wage to qualify for benefits. An alternate qualifier makes a claimant eligible if he or she earns $4800. Massachusetts has an earnings eligibility provision which calls for a claimant to earn 30 times his or her weekly benefit amount, but not less than $1200, in the base period. New Jersey expects claimants to earn 20 "base weeks" or $6200 in the base period. A "base week" is earned when weekly wages equal 20% of the statewide weekly wage. In 1991, this figure is $103. Vermont has an earnings requirement of wages of $1000 in a single quarter and wages equal to 40 percent of total base period earned outside the high earnings quarter. Pennsylvania has a similar provision which requires base period wages of $1320 with at least 20 percent of total base period wages earned outside the high earnings quarter.

In contrast, states with the lowest rates for receipt of benefits have stiffer basic earnings requirements. For 1991, Virginia requires a claimant to earn $3000 in the two highest quarters of earnings in his or her base period. The requirement was $2800 in two quarters for 1990. Florida demands that a claimant earn his or her average weekly wage for 20 weeks, with the average wage no less than $20 a week. A claimant in Indiana must earn wage credits of not less than $1500 in the last two quarters of his or her base period and at least $2500 in the base period and have base period wages at least 1.5 times his or her high quarter wages. South Dakota expects a claimant to earn at least $728 in his or her high quarter and 30 times his or her weekly benefit amount outside the high quarter. Texas requires a claimant to earn 37 times his or her weekly benefit amount and have wages in two quarters. In Oklahoma, a claimant must have earnings greater than 40 percent of the taxable wage base and earn 1-1/2 times his or her high quarter wages in the base period. The taxable wage base for 1991 is $9700.

It is something of a simplification to translate these earnings eligibility requirements into monetary terms, since this omits the requirement, which is found in some of the states, to earn wages over certain quarters. However, translation into monetary terms offers a quick summary of the variation between states. In all cases, Exhibit 4 uses each specific state's 1989 average weekly benefit amount or average weekly wage for mathematical purposes. For example, in Texas, the earnings eligibility requirement of 37 times the weekly benefit amount is translated into monetary terms by multiplying the state's 1989 average weekly benefit ($159) by 37.

The UAW believes that the Congress should enact a federal standard which sets a floor below which states cannot go in restricting their unemployment insurance programs. In our view, a worker who works 20 hours at the minimum wage for 14 weeks, should not fall below this floor. Keep in mind that low wage or part-time workers will get lower benefits, often for shorter durations, than higher wage workers with greater labor market participation. However, these workers should not be completely excluded from our unemployment insurance system.

Disqualification Provisions

Individuals laid off from their jobs form the basic group of unemployed workers for whom the UI system is intended to provide benefits. However, in all states there are statutory disqualification provisions which govern the circumstances for payment of UI benefits to workers leaving their jobs voluntarily or as a result of discharges by their employers. Workers who refuse an offer of suitable work are also subjected to disqualifications in all states. These three disqualification provisions vary from state to state in terms of their scope and the severity of their penalty provisions.

The basic distinction in penalty provisions lies between states which disqualify claimants for a period of weeks of unemployment ("suspension or denial period") and those which require a claimant to find work and earn specified wages, sometimes for a specific number of weeks, in order to terminate the disqualification ("durational or full spell disqualification"). This latter type of disqualification provision is termed a "durational disqualification" because it operates to deprive claimants of benefits for the entire duration of a spell of unemployment. In other words, the unemployed must work before they again qualify for unemployment benefits.

Beyond these two basic types of disqualification provisions, some states employ additional penalties. In addition to imposing a disqualification, some states reduce the number of weeks of potential benefits or cancel wage credits. In the event the worker does have enough earnings to satisfy the disqualification penalty, he or she will have a reduced entitlement to benefits if laid off again in the same benefit year.

A number of states have also adopted voluntary quit disqualifications which result in a laid off worker being disqualified due to a previous voluntary leaving from a job held prior to his or her most recent employment. In effect, the quit disqualification "follows" the worker to the next job and disqualifies him or her at the time of layoff from that job. These punitive measure are partially ameliorated by permitting a worker to leave for a better job or ending the disqualification if the second job which the quitter takes lasts a specified number of weeks.

The National Commission recommended to Congress that states not be allowed to use reduced benefit rights as a disqualification for any action other than fraud and receipt of disqualifying income. The Commission also recommended that the states not employ "durational disqualifications." The Department of Labor agreed with both of these positions in 1979.

There is no question that "durational disqualifications" and their severity have spread over the last decade. In January 1976, 19 states imposed "durational disqualifications" for misconduct discharges. Currently, 39 states have such provisions. Thirty one states imposed durational disqualifications for voluntarily leaving work in 1976. Under present law, 47 of the 51 jurisdictions impose a durational disqualification for voluntary quits. In addition, some states now require fairly long periods of work to satisfy their disqualification provisions. Several states use 10 or more weeks of earnings or 10 or more times the worker's weekly benefit amount to end a disqualification.

The statutory disqualification penalties for refusals of work, discharges for misconduct, and voluntary leavings were examined in the twelve states under study. Again, the unemployment laws of the six states which compensate the highest proportion of their unemployed workers had more lenient disqualification provisions than the six lowest states. See Exhibit 4. A more detailed discussion of the disqualification penalties, beginning with the lowest states, gives a fuller picture of the contrast between the highest and lowest states.

South Dakota imposes a durational disqualification under which a claimant must work 6 weeks and earn wages equal to or greater than his or her weekly benefit amount in each of those weeks. This is termed a "6 X 6" disqualification in the UI trade. Texas does likewise. Virginia penalizes disqualified claimants by requiring the individuals to perform services for 30 days. These days need not be consecutive and need not be in UI covered employment. Indiana exacts a stiffer penalty, which provides that a claimant must work eight weeks and earn eight times his or her weekly benefit amount (8 X 8) to terminate a disqualification. In addition, the agency may reduce a claimant's benefit entitlement by up to 25%. Florida has stern disqualification penalties. It imposes a disqualification penalty for voluntary leavings, misconduct discharges, and refusals of work which requires a worker to earn 17 times his or her weekly benefit amounts. The refusal of work disqualification is linked with a discretionary 5 week penalty period or a 3 week reduction in benefit duration. The severity of these impediments defeats the national need for a fair and consistent response to the hazards of unemployment.

In contrast, the states with the highest average jobless beneficiary rates used denial periods rather than durational disqualifications or had shorter earnings penalties for ending a durational disqualification. New Jersey uses staggered denial periods. A claimant must serve a 4 week denial period for refusals of work, a 5 week denial period for voluntary quits (which can be terminated at any time with a 6 X 6), and a six week denial period for misconduct discharges. Massachusetts uses a 4 X 4 durational disqualification for voluntary leavings and discharges for "deliberate misconduct." In the case of a work refusal, Massachusetts imposes a 7 week denial period and a reduction in benefit entitlement to no more than 8 weeks of benefits following the denial period. Alaska's penalty provisions are a hybrid of denial periods and durational disqualifications. For all three types of disqualifying acts, Alaska requires a claimant to serve a 6 week denial period. In addition, the claimant's benefit entitlement is reduced by the lesser of 3 times the weekly benefit amount or the amount of any remaining benefits. All penalties can be satisfied if the claimant serves an 8 X 8. Rhode Island has a penalty provision which requires a claimant to have 4 weeks of work at least 20 times the minimum wage ($4 an hour in 1991).

Current law forbids a state from cancelling wage credits or totally reducing benefit rights for any action other than discharge for misconduct, fraud, or receipt of disqualifying income. Obviously, many of the states have misused the flexibility granted to them under current law to adopt overly punitive disqualification provisions. The UAW supports a federal limitation preventing the states from disqualifying workers for more than a 6 week denial period for any disqualifying act, other than program fraud, or serious incidents such as theft or assault which are connected to the claimant's work.

Thus, Mr. Chairman, based upon our examination of the role of state laws, the UAW is convinced that these laws have contributed to the decline in the proportion of the unemployed receiving benefits which has occurred during the 1980s. We urge the Subcommittee to adopt federal standards to limit the freedom of states to impose earnings requirements or overly strict disqualification penalties. The adoption of these standards would be an important step to fairer treatment of unemployed workers and restoration of the unemployment insurance system.

Other Proposals For Greater Fairness

Mr. Chairman, the UAW has a number of other comments and proposals for the consideration of the Subcommittee. We offer these as the remainder of a program of comprehensive unemployment insurance reform.

- In order for the unemployment insurance system to work effectively for unemployed workers, their employers, and the affected communities, state employment security agencies must have adequate administrative funds. The UAW supports an adequate level of administrative funds tied to current workload indicators and automatically supplemented in the case of increases in workload. The current system has underfunded state agencies for a number of years and should be revised.

- Nonprofessional educational employees who are unemployed during summer recesses through no fault of their own should not be deprived of unemployment insurance without a written, legally-enforceable assurance of reemployment from their employers. Current federal law requires bus drivers, janitors, clerical, and other nonprofessional school employees to file claims, seek work, and otherwise comply with UI eligibility requirements, with a retroactive payment of benefits made in the event that reemployment does not materialize in the fall. The retroactive payment of unemployment benefits, if reemployment does not occur, is no substitute for the timely payment of benefits. The revision of this law would provide greater justice to nonprofessional school employees.

- In some states, the courts have utilized unemployment insurance decisions to prevent workers from pursuing employment-related lawsuits. These courts applied the doctrine of collateral estoppel. Denying collateral estoppel effect to the decisions of state UI agencies preserves the informality and speed essential to the UI appeals process. Last year the Subcommittee approved language which would have resolved this problem, but the provision did not become law because it died in the Conference Committee. The UAW urges the Subcommittee to again act favorably on this matter.

- Financing should be strengthened by raising the current taxable federal unemployment insurance wage base in steps up to the Social Security taxable wage base and by assuring that the unemployment insurance base thereafter keeps pace with the base for Social Security.

- Unemployment insurance financing should be based on a uniform federal tax. In the absence of such a tax, the experience rating system should insure that all employers share at least part of the costs of unemployment. A program of cost-equalization and reinsurance, across the states, should be established to reduce the burden on those states experiencing abnormally high costs during a national recession.

- Taxation of unemployment insurance should be repealed. Federal taxation of unemployment insurance benefits is, in effect, a federally mandated reduction in benefit amounts which only exacerbates the need for increased weekly benefit amounts.

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- The unemployment insurance trust funds should be removed from the federal unified budget. These monies are reserved for the payment of unemployment insurance benefits and administrative costs. Their inclusion in the budget for bookkeeping reasons should be stopped.

- Unemployment insurance should not be reduced by pension income, Social Security, separation, severance or termination pay. We have worked with others to repeal the federal law requiring states to provide for reduction of unemployment insurance by pension income after March 1980.

Conclusion

Mr. Chairman, the decade of the 1980s was a decade of decline for our nation's unemployment insurance system. In our view, the lack of solvency in the state trust funds created pressures which resulted in the adoption of restrictive state legislation. This state legislation contributed importantly to the decline in the unemployment insurance system. The time has come for the enactment of a comprehensive program of unemployment insurance reform which will reverse the decline and restore the effectiveness of our unemployment insurance system as an income maintenance and countercyclical program.

Exhibit 1

	Percent of the Unemployed Receiving Benefits (1985) (1)	Duration of Benefits (1989) (Months) (2)	Jobless Payments as a % of GDP (4)	Replacement Rate (2)	
U.K.	90	13	1.62	40%	(3)
France	72	3	2.87	42%	
Germany	72	4-13	2.32	68%	
Sweden	68	10	2.38	30%	
U.S.	34	6.5	0.62	35%	(5)
Canada	NA	6.25	2.09	60%	

(1) Gary Burtless, "Jobless Pay and High European Unemployment," in Robert Lawrence and Charles Schultz, eds., Barriers to European Growth, (The Brookings Institute, 1987).
(2) Social Security Problems Throughout the World 1989, Social Security Administration
(3) Burtless. The replacement rate is the ratio of UI benefits to the average wage of a production worker in manufacturing who is married to a dependent spouse and
(4) The OECD Observer, June/July 1990, p. 30.
(5) U.S. Dept. of Labor, Employment and Training Administration

kl/east/rick1

Exhibit 2

	High Cost Multiple (2)	Replacement Ratio (3)	Replacement Ratio Rank (1)	IUR/TUR (4)	IUR/TUR Rank (1)
Hawaii	1.57	44%	8	42%	9
Kansas	1.52	45%	1	39%	16
Mississippi	1.66	34%	39	28%	40
New Mexico	1.65	36%	32	26%	45
Oklahoma	1.61	39%	20	25%	47
Oregon	1.57	40%	16	40%	12
South Dakota	1.52	40%	15	21%	48

(1) Ranking includes District of Columbia
(2) Fiscal Year 1990
(3) Calendar Year 1989
(4) Ten Year Average, 1980-89
Source: U.S. Dept. of Labor, Employment and Training Administration

kl/east/rick1

Prepared by UAW Research Department

Exhibit 3

1980 - 1989 STATE AVERAGES
(IUR / TUR)

1	Rhode Island	63%	27	Arkansas	32%
2	Alaska	53%	28	North Carolina	32%
3	Massachusetts	49%	29	Nebraska	32%
4	New Jersey	45%	30	Michigan	32%
5	Vermont	44%	31	Utah	31%
6	Pennsylvania	44%	32	South Carolina	31%
7	Maine	42%	33	Ohio	31%
8	California	42%	34	Iowa	31%
9	Hawaii	42%	35	West Virginia	31%
10	Wisconsin	41%	36	Louisiana	29%
11	Idaho	41%	37	Tennessee	29%
12	Oregon	40%	38	Colorado	28%
13	Washington	39%	39	Kentucky	28%
14	North Dakota	39%	40	Mississippi	28%
15	New York	39%	41	New Hampshire	27%
16	Kansas	39%	42	Arizona	26%
17	Connecticut	38%	43	Georgia	26%
18	D. of Columbia	38%	44	Alabama	26%
19	Minnesota	35%	45	New Mexico	26%
20	Montana	34%	46	Indiana	25%
21	Nevada	34%	47	Oklahoma	25%
22	Missouri	34%	48	South Dakota	21%
23	Illinois	33%	49	Texas	21%
24	Delaware	33%	50	Florida	19%
25	Maryland	33%	51	Virginia	18%
26	Wyoming	33%			

Note: Percentages are calculated for the entire ten year period.
Source: U.S. Department of Labor, Employment and Training Administration.
Prepared by UAW Research Dept. ki/gwa/rick1

Exhibit 4

Top States	IUR/TUR (80's Avg.)	Replacement Ratio (89)	Monetary Eligibility (In Dollars)	Monetary Eligibility As a percentage of State Avg. Ann. Wage	Durational Disqualification: Refusals	Quits	Discharges
Rhode Island	63%	45%	1,600	8%	Yes	Yes	Yes
Alaska	53%	28%	1,000	3%	No	No	No
Massachusetts	49%	44%	6,210 (1)	25%	No	Yes	Yes
New Jersey	45%	38%	2,060	8%	No	No	No
Vermont (4)	44%	38%	1,400	7%	Yes	Yes	No
Pennsylvania (5)	44%	43%	1,584	7%	No	Yes	Yes
Bottom States							
Indiana	25%	26%	2,500	12%	Yes	Yes	Yes
Oklahoma	25%	39%	3,600	19%	Yes	Yes	Yes
South Dakota	21%	40%	3,480	23%	Yes	Yes	Yes
Texas	21%	39%	5,883	27%	Yes	Yes	Yes
Florida	19%	38%	7,640 (2)	38%	Yes	Yes	Yes
Virginia	18%	34%	5,600 (3)	28%	Yes	Yes	Yes

(1) $1200 base period earnings or 30 times claimant's weekly benefit amount.
(2) State average weekly wage for calendar year 1989 multiplied by twenty.
(3) Two thousand eight hundred dollar requirement for two quarters of the base period doubled to reflect an annual amount.
(4) Must earn $1,000 in a quarter and 40% of total must be outside highest quarter.
(5) Base period wages must exceed $1,320 and 20% of base wages must paid outside highest quarter.
Source: U.S. Dept. of Labor, Employment and Training Administration
Prepared by UAW Research Department.

kj/quat/rick1

Acting Chairman DOWNEY. Thank you.
Mrs. Pearce.

STATEMENT OF DIANA M. PEARCE, DIRECTOR, WOMEN AND POVERTY PROJECT, WIDER OPPORTUNITIES FOR WOMEN, INC.

Ms. PEARCE. Thank you. I am going to talk about women and unemployment insurance.

Women workers are at a disadvantage in the unemployment insurance system. I am going to talk about what is happening to women under unemployment insurance: What the basic goals of UI were before women were a significant portion of the work force; how women workers today fit or don't fit with the UI system; the impact that has had in terms of poverty and UI coverage for women maintaining households alone; and what can be done about these trends.

Women have always been underrepresented among UI beneficiaries, compared to their proportion of the unemployed. Through the 1980s, women workers have accounted for between 42 and 46 percent of the unemployed, with the lowest proportion during the 1982 recession. But women workers did not receive their proportion of unemployment insurance. Only 34 to 39 percent of UI recipients were women, again with the lowest percentages occurring during the 1982 recession.

Second, the percentage of unemployed workers receiving UI has dropped over the 1980s. But throughout the decade, a smaller proportion of women workers received unemployment insurance, averaging from 1983 on, about 7 percent, that is, about 7 percent fewer of unemployed women workers, compared to men workers, received UI. In 1990, about one out of four unemployed men workers, but less than one out of five unemployed women workers, received UI.

Both figures, and particularly their downward slope, are dismaying, of course. But the continuing gap between men and women suggests that there is an underlying structure that leads to differential treatment of men and women workers.

Unemployment insurance was never meant to cover all those out of work. In the 1930s there was a clear understanding that those who were out of work fell into two distinct groups: The first is regular workers, many, if not most were family breadwinners, worked full-time year-round, had skills valuable to employers and society, and who had lost their jobs through no fault of their own—business downturn, skill or industry obsolescence, employer caprice; the second group is casual workers, they worked only intermittently, part-time or part-year, were thought unwilling to work regularly unless forced to do so, had few or no skills, and had lost their jobs through their own actions—quit, or were fired, usually for bad behavior on the job, undependability, et cetera.

Unemployment insurance was designed for the first group, while work relief programs were designed for the casual worker. Many women workers are not eligible for UI because of the fact they are more likely to be part-time or part-year workers, because previous work in a family business or as a homemaker is not counted and because they are trying to balance their work and family obligations.

Many of the quits that are considered voluntary, although, maybe employer-caused and to lead their being disqualified for unemployment insurance.

For example, if you get changed to night shift and you can't get child care, you are considered to have quit "voluntarily" in that circumstance and are disqualified in many States. If you leave because of sexual harassment, in most States you are disqualified because it is considered a "voluntary" leaving. For all these reasons women look like casual workers and get excluded from unemployment insurance.

It particularly impacts on unemployed women who maintain households alone.

About 70 percent of these women are employed. Many of them have, they have a very high poverty rate.

The poverty rates, even though their work has increased over the 7 years, actually increased. Their coverage by unemployment insurance decreased over the 1980s, from 14.5 to 11 percent, even though they were working more—these figures are for employed-women households who experience 3 months or more of unemployment.

Unemployment insurance coverage for employed male householders did not decrease. We see it is impacting particularly upon women.

About 30 percent of these women received AFDC, to speak to Representative McDermott's concern. Three times as many are receiving AFDC, who were employed-women householders, as received unemployment insurance.

In every State welfare is lower than unemployment insurance would be. We see what has been happening in the 1980s is disproportionately affecting women, particularly women who maintain households alone.

Fifty-nine percent of employed-women householders who experience 3 months or more of employment have poverty level incomes in spite of the fact they are employed.

I have several recommendations. Mainly they are that we need to change our eligibility requirements to include the changing labor force structure, and include part-time and part-year workers.

Instead of raising the eligibility requirements, we need to lower them to cover more workers. Many of those workers are supporting families alone.

We need to cover sexual harassment. We need to cover disqualifications that are now excluding women.

We also should cover new and reentering workers. I think to answer your question about differences between States, because of different eligibility requirements, monetary requirements, the nonmonetary disqualifications that particularly impact on women, I think, there is no rational reason for there to be differences between the States. What we end up is having States compete for how badly they treat workers, rather than having our country pull together and compete as a country.

Thank you.

[The prepared statement follows:]

STATEMENT OF DIANA M. PEARCE, DIRECTOR
WOMEN AND POVERTY PROJECT
WIDER OPPORTUNITIES FOR WOMEN, INC.

Women workers are at a disadvantage in the unemployment insurance system. I am going to talk about five things today: what is happening to women under unemployment insurance today, what the basic goals of UI were before women were a significant portion of the workforce, how women workers today--including mothers and women householders--"fit" into the UI system, the impact in terms of poverty and UI coverage for women maintaining households alone, and what should be done about these trends.

I. Recent Trends in UI Receipt by Gender

Women have always been underrepresented among UI beneficiaries, compared to their proportion of the unemployed. As can be seen in Chart I, through the 1980s, women workers have accounted for between 42 and 46% of the unemployed, with the lowest proportion during the 1982 recession. But women workers did not receive their proportion of unemployment insurance: only 34 to 39% of UI recipients were women, again with the lowest percentages occurring during the 1982 recession.

In the second chart, slightly different figures are shown. Here it can be seen that the percentage of unemployed workers receiving UI has dropped over the nineteen-eighties. But throughout the decade, a smaller proportion of women workers received unemployment insurance, averaging from 1983 on, about 7%, i.e., about 7% fewer unemployed women workers, compared to men workers, received UI. In 1990, about 1 out of 4 unemployed men workers, but less than 1 out of 5 unemployed women workers, received UI.

Both figures, and particularly their downward slope, are dismaying of course. But the continuing gap between men and women suggests that there is an underlying structure that leads to differential treatment of men and women workers.

II. Unemployment Insurance: the "Regular Worker" Model

Unemployment insurance was never meant to cover all those out of work. In the nineteen-thirties, there was a clear understanding that those who were out of work fell into two distinct groups:

(1) Regular workers: many if not most family breadwinners, worked full-time year-round, had skills valuable to employers (and society), and who had lost their jobs through no fault of their own--business downturn, skill or industry obsolescence, employer caprice).

(2) Casual workers: worked only intermittently, part-time or part-year, were thought unwilling to work regularly unless forced to do so, had few or no skills, and who had lost their jobs through their own actions--quit, or were fired, usually for bad behavior on the job, undependability, etc.

Unemployment insurance was designed for the first group, while work relief programs were designed for the casual worker.

The perspective underlying the unemployment insurance system emphasized that it was important, not only for the worker--and his family's--sake, that he be enabled to return to work, but that it was good for the society, not to lose his work effort, nor the value of his skills. As it was put by Julia Stuart Poyntz in 1916 hearings:

> When the factory shuts down the manufacturer takes care of his machinery, keeps it under shelter,oils it, and covers it up, so that it will not deteriorate. With

his living machinery he does not do this. He can only turn his workers out into the street to swell the army of unemployed labor.

Thus the unemployment insurance program, as designed then, and continues today, had 3 goals: (1) to help the unemployed worker find new employment, (2) to help the unemployed worker develop new skills, if necessary, and (3) to provide income support for the worker and his family.

III. How Women Workers Appear as "Casual Workers" in the UI System

Unemployment insurance, even then, and certainly now, was not set up to be discriminatory against women workers. Unfortunately, however, as women workers entered the labor force in increasing numbers, and as the structure of jobs has changed in recent years, these new women workers (and other new workers, such as immigrant workers) have come to fit the profile of the old male "casual worker". Because women workers appear as "casual workers", UI structurally discriminates against women. The result is that women receive UI benefits less often, and in lesser amounts, than their numbers among unemployed workers would suggest.

There are 6 ways in which women appear to fit the profile of the casual worker, with substantial consequences for their UI coverage:

(1) Women are more likely to be new or re-entrants to the labor force. In December, 1990, 42.3% of adult women unemployed were new or reentrants to the labor force, compared to 18.5% of men. Conversely, women unemployed are less likely to be unemployed by virtue of being laid off (and thus actually still have a job); almost a fourth of men workers (24.7%) versus 11.3% of women workers, are on layoff.

(2) Women workers are more concentrated in a few occupations--about a third are in just ten occupations. Many of these jobs, moreover, such as cashier, waitress, and clerical support are low-paid. At the same time, these are jobs that have been increasing the fastest, as manufacturing and other high-paid jobs decrease in numbers.

(3) Women are more likely than men to work part-time, and/or part-year: 30% of women workers are part-time; 49% are part-year and/or part-time. Moreover, that number is likely to be increasing, as it has in past recessions, as employers cut back first on hours, then on workers.

(4) Women are more likely to be low-wage workers. Over the decade 1975-1985, the percentage of adult women in the labor force increased by 10%; 60% of those new women workers entered jobs paying poverty-level wages, or about $6.00 or less in today's terms. Today about one out of three women workers is low-wage, earning less than $6.00 an hour, or less than the poverty level for a family of four, (assuming she worked full-time, year-round).

(5) Women are more likely to leave a job because of incompatibility with domestic obligations--women are 99% of what are called "domestic quits".

(6) Women are more likely to quit a job to avoid or end sexual harassment.

While some aspects of this profile reflect apparently "voluntary" choices made by women workers trying to balance work

and family in the struggle to be a good work and a good mother, it should be remembered that:

- The "voluntary" choices made by women who are mothers, or who have other obligations, are made in the context of a lack of choices and flexibility of child care, rigid and lengthy work schedules that are incompatible with public school schedules, etc.

- The pay inequities and work patterns experienced by women workers, are experienced not just by those who are currently mothers. Over a woman's lifetime, the years spent working with small children at home are relatively few, but the impacts of these patterns occur throughout a woman's work life, and into retirement.

- Regardless of the reasons, the economic impact of treatment as a casual worker by the UI system are just as real. And though they disproportionately impact on women, all low-wage, part-time, part-year, etc., workers are subject to the same kinds of impacts.

Each of the six characteristics that make women workers appear to be "casual workers" in the eyes of the UI system, has consequences for UI receipt for women workers:

(1) In the first place, many unemployed are not eligible for UI because they have not had a job yet--or recently--or their work does not count, e.g., if they have worked without pay in a family business, or been a homemaker. As new entrants, or reentrants to the paid labor force, women workers are not eligible for UI, as eligibility is based on having been employed. This is not true in all countries: some European countries cover new and reentrant workers, as well as job losers and those laid off.

(2),(3) and (4). Even with employment, many women workers are excluded from UI by eligibility rules, which though different for each state, work systematically to disproportionately exclude women. The combination of the concentration of women workers in a few female occupational ghettoes, part-time/part-year work schedules, and low wages more frequently among women, means that women workers less often make the minimum thresholds of earnings and/or hours necessary for eligibility for UI. For example, in the state of Virginia, the minimum earnings requirement is not met annually by about 19% of male workers, but by over a third of female workers; i.e., about a third of women workers do not make enough to qualify for UI benefits in Virginia. Although the numbers vary by state and year, the gap between men and women on wages alone is still substantial, regardless of where the line is drawn.

(5) and (6) As women trying to balance work and family, women workers often find themselves forced to choose. Two types of problems confront women with domestic obligations--which include not only those of the working mother, but also those with an ailing spouse or other relative, or elderly parents:

- First, when work and family become incompatible, and a woman leaves her job, she is often deemed ineligible, because the quit was "voluntary", even when it was caused by an employer action (such as changing shift hours to ones for which no child care is available).

- Second, even if eligible in terms of job-leaving reasons, she may not be eligible if she is not considered "available/able/and willing to work"; she may not meet this available/willing to work standard, in some states, if she:

- will only work part-time, even if she was working part-time previously
- will only work certain hours, e.g., daytime
- the location or working conditions of an offered but refused job are incompatible with child care arrangements, although she can refuse on grounds that it is too far, too dangerous, etc.
- if she lacks a telephone, or does not have her children in child care, she may be considered "unavailable" for work.

What does all this mean? It is that the combination of women's increased labor force participation, a changing economy--more low-wage jobs, more service jobs, the very doors by which women workers have entered the labor force--and women's efforts to balance their work and family lives, have meant women workers are not only on the bottom economically, but they are even less likely than men to receive UI when they become unemployed. The small proportion of women workers eligible for UI, means that women workers are forced to accept less than desirable working conditions, wages, etc., and are thus more vulnerable to economic exploitation and poverty, reinforcing their poverty and low status in the labor force.

IV. The Impact of UI Structure and Trends of Women Maintaining Households and Families Alone

All of these trends have been getting worse for women over the eighties, particularly women maintaining households alone. Although women householders have had a high employment rate all through the eighties--about 70% are employed, two-thirds year-round, and have increased their hours and weeks worked, their poverty rates have actually increased since the 1982 recession (while those of male householders have fallen). Over one-fifth of employed women householders, and one-fourth of single mothers, are poor in spite of their employment.

Why are things getting worse for women householders who are working? One clue can be found in what is happening to these women when they are unemployed, even for a few weeks. First, they are less likely to have another member of the household employed; during the last recession in 1982, less than one-fifth of unemployed women householders had the employment of another household member on which to fall back. Second, employed women householders--but not their male counterparts--who had three months or more of unemployment, experienced an increase in poverty rates from 50% in 1980 to 59% in 1986.

A possible reason for the different experience of men and women householders coming out of the recession is what happened to receipt of UI. While the percent of male householders who were part-year workers receiving UI (and workers' compensation) remained constant, it fell by 25% for women householder part-year workers, from 14.5% to 11%. (Receipt of welfare has remained constant over the nineteen-eighties, at about 30% of women householders who are part-year workers; AFDC is the poor women's UI). Whether these patterns are due to the changing structure of jobs and labor force participation by women, and/or tightened eligibility requirements, they are clear in whom they impact--disproportionately women, especially those heading households, and clear in their effect--increasing poverty for working women and their families.

V. Recommendations

The changing nature of the labor force, with more part-time and temporary jobs, and less commitment by employers to workers, requires changing the structure of UI. In a sense, we have come full circle: in the nineteen-thirties, the consensus was that

employer behavior that created unemployment for otherwise hard-working and willing workers, should be reduced by taxing those who created more unemployment. Unemployed workers were seen as victims--deserving poor, who needed help and protection, insurance against a labor market they could not control.

Today, employers, and the economy, have recreated the same kind of job structure--short-term, part-time jobs, that leave workers unprotected, by either union or their government, against loss of their jobs through no fault of their own. In a sense, we have been creating a class of 'throw-away' workers, and we need a new ecology that sees such actions as wasteful of human resources. And since many of these workers are wives and mothers, and sometimes single parents, the waste and harm impact on children as well. Attempting to shift the locus of this re-structuring onto women workers misses the fact that most women workers, as with most men workers, lose their jobs through no fault of their own, because the jobs of today have been structured to be temporary, part-time, and low-wage, and hence, render them ineligible for unemployment insurance.

To meet the needs of women workers, and the changing structure of jobs that impacts on all workers, we need to return to the original goals of UI: to help workers find new employment, help workers acquire needed new skills, and support workers, and their families, during unemployment. To meet these goals, the following recommendations are made:

1. Mandate coverage of part-time, part-year and low-wage workers, i.e., lower minimum hours and wage requirements to include more of the workforce. Require that part-time workers be eligible for benefits, and considered to meet the available/able/willing to work standard of eligibility.

2. Mandate that employers that force employees to leave because of the impossibility of making child care arrangements (e.g., night shift, new location) or meet other domestic obligations, are then liable for the unemployment insurance costs, and the employee be made eligible.

3. Make sexual harassment a legitimate reason for leaving employment, thus covering women employees, as well as making employers responsible for UI costs.

4. While some states provide dependent coverage for workers' families under UI, it should be universal. Furthermore, women receiving subsidized child care while employed, should continue to receive the child care concomitant with UI receipt. (This would not only aid her return to employment, but would prove less disruptive for the child, and the child care center: imagine the disruption if children were pulled out of public school whenever their parents became unemployed).

5. Monitor eligibility requirements, and their enforcement, for discriminatory impact on women and/or minorities.

6. Provide coverage for new and reentering workers, coupled with access to programs to ease that transition into the workforce (such as pre-employment programs for displaced homemakers). Treating new and re-entering workers as unemployed <u>workers</u>, focuses policy and program on specific job search skills, job placement, etc., rather than on motivation, etc. issues.

7. Mandate that employer participation in UI be more vigorously enforced, in terms of contributions, and co-operation with UI officials and former employees seeking benefits.

STATEMENT OF C.A. (MACK) McKINNEY, LEGISLATIVE COUNSEL, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA, ACCOMPANIED BY RICHARD SCHNEIDER, CHIEF MASTER SERGEANT (RETIRED)

Mr. McKINNEY. I would like to introduce the gentleman accompanying me today. He is a retired chief master sergeant of the Armed Forces, Richard Schneider.

I want to commend the Chair, as well as Mr. Pease and Mr. Levin for the work they did last year in trying to resolve this problem, but we still have it with us. I think it is kind of a paraphrase of an old saying. "Everyone talks about it, but nobody is doing anything about it."

Although I know you are, and I know the members of your subcommittee, as well as a lot of other people are, but it seems like the hierarchy of the Finance Committee over on the Senate side and the hierarchy here in the Ways and Means Committee don't want to do anything about it.

But it is still a very unfair law, very unfair. It is unevenly applied to our former service members. In fact, if I may, I would like to take a minute here to quote a brief statement that was made by a gentleman over on the Senate side who is a former prisoner of war in the Vietnam era.

He said:

> Today it penalizes men and women who would be forced out of a career they have planned to make their life's work, and under conditions where separation would be a matter of rank, age, and special skills and not the result of talent, dedication, or past service. Men and women who volunteer to risk their lives, who often will be separated far from the location where they must find a civilian job and who have little past experience in seeking civilian employment will get only half of the unemployment protection of our civilians.

In the past , Mr. Chairman, as you well know, we have had a lot of single members who have been turned loose. A lot of those folks went out and received the GI bill, Montgomery GI bill, so they went to school. If memory serves me correctly, only about 10 percent of those service members took advantage of the unemployment compensation to begin with.

But now over 60 percent, about 60 percent of our people are married. We are going to involuntarily start separating hundreds of thousands of people over the next 5 years. As soon as Desert Storm is over with, bang, out they go.

We are going to dump these folks on the economy, and they will not have an opportunity to apply for unemployment compensation, particularly those with less than 6 years of service.

Those with less than 6 years of service are thrown out, no money whatsoever, no right to any relocation, dislocation, or anything else. They get nothing.

Yet we expect them to wait 4 weeks before they can apply for unemployment compensation and then say to them, "You, although you risked your life in Desert Storm, we are going to give you only one-half of the benefits that we give a civilian."

It is just not right, and it is unfair as it can possibly be. We think that if we—I have already talked to Mr. Slattery, hoping that he would do so—introduce a clean bill just for this particular issue.

I would encourage you, Mr. Downey, and your subcommittee to do the same.

We need to get this particular issue resolved once and for all.

To support our statement which I have already submitted for the record—by the way, Chief Schneider wrote it, so if you have any questions on it, we will refer to him. But this particular position of ours is concurred in with 23 military organizations that make up the military coalition.

If I may, I will give you the coalition list for the record.

Thank you, sir.

[The prepared statement and a list of coalition members follow:]

STATEMENT OF C. A. (MACK) McKINNEY AND RICHARD C. SCHNEIDER NON COMMISSIONED OFFICERS ASSOCIATION

Mr. Chairman, the Non Commissioned Officers Association of the United States of America (NCOA) appreciates the opportunity to comment on unemployment insurance and the effects of the existing policies as they relate to the men and women who separate from the Armed Forces. It is perhaps providential that these hearings are accruing at a time when the nation is experiencing the onset of a recession of yet unknown proportion; unemployment numbers are moving upward; announcements of layoffs occur daily; and on the horizon, the possibility of a resolution to the conflict in the Persian Gulf. A resolution of that conflict will see not only the return of our forces, but an immediate and expanded demobilization as the Congressionally-mandated force structure reductions take place. Hence, this hearing is of paramount concern as these separating members, in big numbers enter into a diminished market place accented by an exacerbated high unemployment rate.

This Association has for years been working to achieve an equitable unemployment compensation system for separating servicemembers. Our work to achieve equity on behalf of service people is still not complete. Separating personnel do not have the same unemployment benefits as their civilian contemporaries. In 1982, the Congress partially restored unemployment compensation to those who had served honorably in the military, but coveted their benefits restricting payments to thirteen (13) weeks after a delay of five (5) weeks before payments could start. Since 1982, NCOA has tried unsuccessfully to have the law amended that ex-servicemembers are considered and processed in the same manner as jobless civilians (i.e. twenty six (26) weeks of benefits to begin one week after application, and in a unique circumstance, an extension of thirteen (13) weeks). This inequity takes on greater meaning when we observe that labor conditions have deteriorated in the last two years and dramatically since June of last year.

o Employment opportunity has declined by over 1 million jobs

o During this same period the number of unemployed has increased by 1.2 million

o By January 1991 the unemployment rate had risen to 6.2% and by projections will end FY 91 at 6.6%

o Manufacturing job losses in the past two (2) years is 900,000; construction losses - 450,000; and we see a current negative shift in the service industries such as that announced by Sears this past month

o Historically, in a recession the duration of an individual's unemployment increases

Into this declining marketplace, we project a sizable number of military separatees resulting from the end of the Persian Gulf conflict and the continuation of the Congressional downsizing or force restructuring of the Armed Forces. The transition of this group into the employment market place is wholly different than their civilian contemporaries. The differences do not require a unique unemployment compensation program, but demand the mirror image of their civilian counterparts. The Government, in limiting the unemployment compensation of our ex-servicemembers contributes to their financial strain and places high stress on those members with limited resources to quickly secure meaningful employment in a depressed economy.

The existing limitation on unemployment compensation has the greatest effect on our young servicemembers and their families. These people have the least financial resources for the abrupt transition they will experience. These people are assigned to locations around the globe. A snapshot of this group would reveal:

o Over 50% married with one or more children

o High school educated, with some college

o Separation from service and relocation in most cases results in the loss of two jobs and sources of income of the member and spouse. In a substantial number of cases, the loss of a third income from the military member's "moonlighting" job. It is obvious that this group has financial burdens that will follow them upon separation from the military.

o Do not own residences in their hometowns. Many families will temporarily be domiciled with parents.

o No one in the military has ever been fully reimbursed on a change of station move. Current estimates are reimbursements of $1.00 for every $3.00 spent on a move.

o Those in the combat arms (infantry, artillery, munitions, etc.) do not have skills that translate to the civilian marketplace.

o Personal high debt to income resources

o Age 20-25

Ms. Mary Ann Wyrsch, Director, Unemployment Insurance Service, U.S. Department of Labor, testified just weeks ago before this committee (February 6th) and commented on the a Congressional Research Service Study of unemployment in the mid 1980's. It suggested that many of the unemployed had weak job attachment and often had not accumulated a "sustained work history." The report further noted that half of all unemployed were twenty seven (27) years of age, or younger. That report and its comments aptly describe a large number of our separating military personnel who will be entering the job market.

Our association also recognizes that the majority of service members will be separated on schedules determined by their service component. Service members will be given limited time to prepare themselves for transition to civilian life. This transition will be further complicated for members assigned to the Persian Gulf, with their families living at or near military installations throughout the United States, who must collect their families and transition to "home town" America. These people simply do not have the fiscal resources to travel independently prior to separation to secure housing and employment. Although service programs exist to allow administrative leave for these purposes, the stark reality is that the majority of enlisted members do not have the personal finances to pursue jobs and housing across the country. Another group that will be similarly effected, and perhaps to a greater degree are those service members assigned overseas whose expiring service commitment will result in their separation at "Port" upon return to the United States. Add to the latter group an accompanying family (spouse and children) and you begin to see the parameters of the problem: Relocation and all the associated expenses, lack of a future job prospect, and no home in which to settle.

The existing unemployment compensation entitlement which requires waiting five (5) weeks before payment and then benefit period of thirteen (13) weeks is far too limiting.

The Non Commissioned Officers Association has never been able to understand why the Federal Government would treat honorably separated servicemembers and unemployment benefit schedules differently than that of a Federal worker. We can only guess that in past years the Department of Defense (DoD) which reimburses the states for unemployment compensation of separating members opposed the increased costs associated with the program. We're delighted to note that the DoD this year, in light of

reductions in force structure, is also seeking equitable legislative relief for their people.

RESERVE FORCES UNEMPLOYMENT COMPENSATION

NCOA also recognizes a disparity in unemployment compensation relative to members of the Reserve Forces. We seek an initiative to standardize the treatment by the States in regard to reserve drill pay in the computation for unemployment benefits.

We have seen the Reserve Forces grow substantially as missions have been transferred to them by the active duty components. And, we are today recognizing the effectual contributions of our citizen Soldiers/Marines/Sailors/Airmen/ Coast Guardsmen in the Persian Gulf.

The average Reservist is a part-time "warrior" of their respective service component. They participate in monthly drills and two weeks annually in active duty for training to develop their military skills. They receive limited compensation for their Reserve participation. Their primary source of income is their civilian employment.

Drill pay of a Reservist or Guardsman is excluded in some states when individuals lose their primary jobs and unemployment compensation is computed. In a majority of states, however, Reserve drill pay is the basis to reduce or totally disallow unemployment compensation when the individual's primary job is lost. For those in the latter category, the Reservist must terminate his Reserve/Guard service to be eligible for unemployment compensation.

NCOA seeks a legislative change that would standardize unemployment compensation across the states for Reserve and Guard forces personnel. We believe the unemployment compensation program for Reserve and Guard personnel should be fair and equitable for all participants.

CONCLUSION

Mr. Chairman, we thank you and the Committee, for asking the right questions at the right time regarding unemployment compensation. We have addressed those issues of concern to the membership of the Non Commissioned Officers Association and the hundreds of thousands of enlisted servicemembers it represents. They recognize these issues as counter productive policies of the Nation. We need equitable programs in the unemployment compensation arena that provides support to all people through the tough times of their lives. Ultimately, we want these people as "tax-payers," gamefully employed. As they prosper so will our Nation.

NCOA recognizes that the necessary requested changes must begin with this distinguished subcommittee. We ask your support, in initiating legislation that will correct these inequities as soon as possible.

Again, our thanks for granting the time to us to discuss this issue. We stand tall at the ready to assist you in this endeavor.

Thank you.

THE MILITARY COALITION — January 1991

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STATEMENT OF JOSEPH C. LUMAN, WASHINGTON COUNSEL, PRESIDENT, J.C. LUMAN & ASSOCIATES, NATIONAL ASSOCIATION OF PERSONNEL CONSULTANTS

Mr. LUMAN. I am speaking on behalf of the National Association of Personnel Consultants. We have two comments for the subcommittee today relating to the two functions that can happen at a UI/ES office.

First, paying unemployment to those qualified. Second, doing everything possible to get people back to work.

On the first point, although our organization doesn't have anything to do directly with UI, we associate ourselves with Commissioner Stoner's statement and those of others that we have a problem. People aren't being treated with enough dignity.

We have the money, which is fortunate. I think we should put the money with the problem and treat unemployed people with respect rather than having them stand in long lines.

On the second point, I wanted to report to you that our association is working to help the employment service use every available resource to place the unemployed. One of those resources is the network of private agencies in our country.

Private placement firms are in a peculiar position. They do the same thing that employment services do.

They link workers with jobs. This shared foundation can cause headaches and it can also provide opportunity. On the headache side, we have seen on occasion when employment service directors went off the reservation and tried to become an arm of corporate staffing for a large company or tried to recruit employed people to move from one company to another. That gives placement firms heartburn.

We are working on this and trying to minimize friction. At the same time, because our people do the same thing as a public employment service, they represent a resource. They can place some of the unemployed people that the public employment people cannot.

This is not a panacea. NAPC members generally place higher-skilled people for whom the employer is willing to pay a fee.

Cooperative efforts are underway in several States, although they are still a minority. The potential for cooperation was examined in 1986, by the General Accounting Office. I think this report's title says it all. "More Job Seekers Should be Referred to Private Employment Agencies."

Mr. Chairman, although this is not a panacea, we think that every available resource should be harnessed in this effort to reduce the duration of unemployment.

Our association this year is endeavoring to go out and be more active, meet with the job service people, sit down and talk with them, find out ways we can cooperate so that we can refer job openings to them and place qualified applicants with client employers.

If they have a qualified applicant willing to be referred to the private agency, he will be presented to the client employer. If that applicant is hired, everyone wins at no cost to the applicant or the Government.

The employer gets a satisfactory employee, the applicant gets a job and the employment service has one less person drawing upon its time and resources.

There has been a lot of animosity between the public officer and private firms. I don't think this will change over night, but we are working to make the relationship more cooperative. I think we are going to be able to do it.

[The prepared statement follows:]

Testimony of
Joseph C. Luman
Washington Counsel
NATIONAL ASSOCIATION OF PERSONNEL CONSULTANTS
Before the
Subcommittee on Human Resources
Committee on Ways & Means
U.S. HOUSE OF REPRESENTATIVE
February 20, 1991

Mr. Chairman and Members of the Subcommittee:

As Washington Counsel to the National Association of Personnel Consultants (NAPC), I appear today on behalf of hundreds of firms that are members of the largest association in the placement industry. We submit two proposals for the subcommittee's consideration. First, that the supplemental money requested for the Unemployment Insurance system be provided. Second, that the subcommittee recognize that private firms provide a resource which can help increase the public employment service's effectiveness in placing unemployed workers. NAPC is working with the public agencies to promote greater use of this resource.

Although the placement industry has no direct connection with the Unemployment Insurance program, and has some differences with the Employment Service side of the system, NAPC members are familiar with the damaging effects of unemployed individuals. They are also aware of the importance of treating unemployed people with dignity. This doesn't happen when applicants have to stand in long lines for hours at a time because UI offices are understaffed. We should change this. There is a need, the FUTA Trust Fund has the money to meet that need, and the two should come together.

Our second point is that the Employment Service today is not making enough use of the network of private agencies to place what is admittedly a limited number of applicants. This is not a panacea, but the hardships of unemployment--especially for those not receiving benefits--call for the use of any practical resource that can help speed placing people in jobs. This is a case where the placement industry's interest happens to coincide with that of unemployed workers. Both suffer if public resources are used to recruit for and staff corporations at the expense of service to applicants.

The placement industry believes that it should not face competition from the public employment service, which its taxes help to fund. Such competition is not the predominant behavior of public employment service offices, but it has occurred. Obviously, a small business owner becomes upset when he or she sees publications suggesting that an employer who pays fees to acquire the best candidate is somehow wasting his money. These firms can't see why a Job Service in one State advertises in newspapers two States away to recruit workers for a Japanese corporation or why public employers should be detailed to serve as a corporation's personnel office. Although these types of activities are not necessarily widespread, and some public employment officials agree that they are improper, they exist. The present system somehow doesn't have the ability to discourage this sufficiently. We realize that the public job service must get along with employers because our industry must as well. After all, they have the job openings. In a majority of cases, it seems that the system has kept the temptation to become the sole provider under control, but when diversions of resources happen in one place, there is really no assurance that it will not reoccur elsewhere.

The relationship that NAPC is trying to bring about with the public employment service was described in a General Accounting Office report issued in March of 1986 (HRD-86-61). GAO looked at the jobs available to private agencies and those available to the public employment service, as well as the types of applicants that were served. In its report "More Jobseekers Should Be Referred to Private Employment Agencies", GAO concluded that the Job Service could expand its effectiveness by cooperative agreements with private agencies.

In these agreements, a placement firm is treated as an employer. It sends the job order placed by its employer client to the public employment service. If an applicant at that office meets the qualifications, he or she is given the option of being presented to the employer by a private firm. If the employer hires this individual, he owes and pays a fee to the private agency for procuring an applicant that met the qualifications. The applicant has a job, the private agency has a fee, and the Job Service office has helped another person leave its rolls. Although this procedure makes sense, it has yet to be adopted by a number of public employment service offices. There are even variations among local offices in the same State.

It is unlikely that these agreements will produce great numbers of placements, because many of the people in the Job Service office files do not qualify for positions for which employers will pay an intermediary. They work in jobs where employers customarily do not use outside expertise to find the best worker. But particularly in times like these, there are skilled workers and professionals apply for unemployment compensation or ask for help in finding a job. Rather than trying to duplicate the expertise that the private market has developed here, it makes more sense for the public employment service to have a cooperative agreement with a private agency and thus use the agency's expertise.

We're working to change old habits. NAPC is urging its members to make an active effort to meet and try to work with the local employment agency directors. There is an emerging willingness to cooperate between two groups that frankly have been antagonists for many years. We intend to pursue our efforts to minimize the friction while we continue to work to make the system more uniformly fair in i[illegible] relations with our members. We wanted to make the subcommittee be aware of this particular development because it can enhance the ability of the public employment service to get people back to work as fast as possible. We'll be trying to get cooperative agreements signed. We hope that they will be carried out in good faith and that this industry can do its part, however limited, to make its expertise available in cases where it would help.

Mr. Chairman, we appreciate the chance to put these views before you. NAPC is optimisitic that the developments now underway will lead to greater use of this capability in the future. Placement firms are one of several resourrces available to help in this important activity and we believe that all of them should be used whenever practical. Thank you.

Acting Chairman DOWNEY. Thank you, Mr. Luman.

Let me thank all the panelists

Mack, this is going to happen whether it is out of this unemployment bill or that separate bill. It will happen primarily because of Desert Storm.

It should have happened notwithstanding Desert Storm, as you testified to last year. But, it is going to happen.

I am not going to stand in its way. I was one of the original sponsors of the idea.

The reason I want to do it in conjunction with others is that it is a popular measure. It is going to be an engine that will pull some of the rest of this train that is not as popular and more controversial. But we all want to see it happen.

It is going to one way or the other. I don't want you to feel that this committee in any way would stand in its way.

Ms. Pearce, you made an excellent point about women. I think it has to do with the nature of the jobs that they have.

Ms. PEARCE. It is the nature of the changing labor force.

Acting Chairman DOWNEY. Others have testified to that, and we want to be very sensitive to that issue. My sense is while the labor force has changed nationally, it has changed within State borders as well.

We have tough questions to ask ourselves about what States should be doing, and what we should be allowing them to do. The contingent nature of the Federal system that we have allowed to operate, in my mind, has not worked as I would have envisioned it.

I think that is also part of the point that you made, Mr. McHugh.

Mr. Luman, I didn't realize that the GAO said we should use more private placement, but you are right. There seems to be a happy marriage there.

People get jobs, resources may be safe. That is something that I will spend a little more time and attention with as we consider these matters.

Thank you all for excellent testimony. I appreciate your appearance.

Thank you.

[Whereupon, at 12:03 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

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February 4, 1991

Honorable Thomas J. Downey
Subcommittee on Human Resources
Ways and Means Committee
B-317 Rayburn Office Building
Washington, DC 20515

Dear Congressman Downey:

Your staff invited me to testify at hearings later this month on proposed changes in the Federal Unemployment Tax Act and other provisions relating to the unemployment insurance program. Regrettably, I shall be out of the country at the time and am unable to appear. I am very interested in these changes, though, and would like to make a few remarks on them. I hope these can be entered into the record.

The $7,000 limit on earnings taxable under FUTA becomes increasingly out of line as average earnings rise. Today this restriction means that employers pay the tax on only 37 percent of the wage cost of the average worker. Applying the FUTA tax rate of .8 percent to this low base means that FUTA adds .8 percent to the cost of employing a minimum-wage worker. It adds, for example, only .2 percent to the cost of employing a worker earning $28,000 per year. Because of this low limit on the base the federal UI program creates a wedge that biases employers against hiring lower-skilled workers. There is substantial evidence that this wedge reduces employment opportunities for low-skilled workers.

I have heard various proposals for increasing the limit on the FUTA base. Particularly appealing is an increase to the base for OASDI (currently $53,400). This linkage was envisioned in the Social Security Act of 1935 and was in effect during the early years of the UI program. With it a revenue-neutral FUTA tax would result in a reduction in the tax rate to around .3 percent. This is not large a large drop. But since $53,400 covers around 90 percent of all earnings in the U.S., it is enough to remove nearly all the bias that the current tax gives employers against hiring low-wage workers. It will make some difference in employers' choices of the kinds of workers they hire. It is a fair, potentially revenue-neutral way to make a small dent in the labor-market problems of less-skilled workers.

Over the years the main effect of raising the FUTA base has been to induce states to raise the base for the state taxes that finance regular benefits. Even if states were not required to raise their

MSU is an Affirmative Action/Equal Opportunity Institution

base, I would expect that convenience for employers would quickly lead them to do so.

Increases in the base for regular state UI payroll taxes would have a major effect on the program, and an important positive impact on the employment of low-wage workers. During the 1980s federal law encouraged states to increase the experience rating of their programs by raising maximum tax rates. This occurred simultaneously with the decline in the taxable base relative to average earnings. Together these changes raised the tax cost of employing low-wage workers as a percent of total labor costs compared to the costs of employing higher-wage workers. The federal changes induced state programs to increase their incentives against the employment of low-wage workers. For example, in Pennsylvania an employer might pay 9 percent of a low-wage worker's wage in state UI taxes, but would pay only 1.8 percent on a worker earning $40,000 per year.

If states follow the federal lead, the current proposals would remove this substantial extra cost of hiring low-wage workers. This would generate many new jobs for these workers and remove a major inequity in the financing of UI benefits. At least as important, there is increasing evidence that the low tax base, and the imperfections it induces in experience rating, give employers an incentive to rely on layoffs when sales decrease. If states follow suit and raise the tax base, your efforts would have removed much of the incentive for firms to lay off workers. Lower layoffs would reduce benefit costs. With the higher base tax rates would, under pooled state systems, decrease automatically. But the higher base would actually <u>reduce total UI costs</u>: The tax rate would fall by more than the base would rise.

In sum, a large increase in the FUTA base, coupled with a commensurate decline in the FUTA tax rate, would at least generate some additional jobs for low-skilled workers. At the same time it would remove an inequity in the financing of the administration of the UI program. If the increase is followed by the states, it would greatly enhance these beneficial effects and would as well reduce fluctuations in employment and hence decrease the total cost of the UI program. It is not just revenue-neutral; it is also potentially cost-reducing.

Your efforts on this are commendable, and I wish you and your colleagues success in getting legislation on it approved.

Sincerely yours,

Daniel S. Hamermesh
Professor, and Research Associate,
National Bureau of Economic Research

TESTIMONY BEFORE SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON WAYS AND MEANS
BY
JIM EDGAR, GOVERNOR OF ILLINOIS;
RICHARD J. WALSH, PRESIDENT, ILLINOIS AFL-CIO;
LESTER W. BRANN, PRESIDENT, ILLINOIS STATE CHAMBER OF COMMERCE,
ON BEHALF OF THE ILLINOIS EMPLOYERS'
JOINT POLICY COMMITTEE ON UNEMPLOYMENT INSURANCE;
LOLETA A. DIDRICKSON, DIRECTOR DESIGNATE,
ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

March 11, 1991

Thank you, Mr. Chairman and members of the Subcommittee, for the opportunity to once again present the view from the State of Illinois.

Honest differences will likely exist among us over many of the issues you are considering, but we all agree on at least two points. 1) Persistent shortfalls in federal administrative funding are seriously threatening the ability of state unemployment insurance and job service programs to effectively serve the nation's job seekers and employers. 2) In view of the Unemployment Trust Fund's growing balances of dedicated administrative dollars, those shortfalls are totally unnecessary.

A sound employment security system for Illinois' job seekers and employers is crucial to the state's ability to compete in the world economy. In Illinois, business, organized labor and state government are committed to working together to maintain that system.

Working together, we literally rebuilt Illinois' once debt-ridden unemployment insurance program since the beginning of the last decade. Through a series of overhauls of the state's unemployment insurance law, we have set competitive tax and benefit rates and balanced the need for prudent benefit account reserves against the cost of those reserves to the state's economy. Despite a currently rising claim load and statutory benefit increases in each of the last three years, Illinois' benefit account is expected to finish calendar year 1991 with a positive balance of more than $1 billion.

Working together, we can help Illinois' employment security system successfully confront the challenge posed by the present economic downturn. To do so, however, the system must have administrative resources sufficient to get the job done.

To our dismay, federal administrative funding for Illinois' unemployment insurance and job service programs has dropped steadily since federal fiscal year 1984, by 21 percent after adjusting for inflation.

Since state fiscal year 1984, the Illinois Department of Employment Security has cut its staff levels by more than 25 percent - from 4,000 to fewer than 3,000. The Department has consolidated a network of 128 local unemployment insurance and job service offices into 63 facilities. In all regards, Illinois has operated its employment security system with a keen interest in efficiency and has consistently worked to do more with less.

However, Illinois still finds itself expending significant amounts of state-generated resources to maintain the federal unemployment insurance and job service programs at effective levels of operation. State funding for Illinois' employment security system has risen by more than 320 percent since state fiscal year 1984.

As you know, Illinois is not alone. It is estimated that, in federal fiscal year 1990, 33 states committed more than $200 million in state funds to maintaining their unemployment insurance and job service programs. Still, nationally since 1980, 662 local unemployment insurance and job service offices have been shut down and more than 14,000 employees of state employment security agencies have been let go, according to the Employers' National Job Service Committee.

Compounding the problem, the current fiscal picture for Illinois and many other states will not allow the present level of state funding for the two programs to continue.

Today, unemployment insurance claimants in many states wait too long to receive their benefit checks. Others endure excessive delays in understaffed unemployment insurance offices, frequently after travelling long distances to get there. Higher unemployment workloads may ultimately threaten accuracy in state benefit payments and tax collections, with disturbing implications for state benefit accounts. The ability of state job service programs to adequately serve their customers is also suffering. Without adequate administrative funding from the federal government, the situation will only get worse.

The Unemployment Trust Fund's Employment Security Administration Account ended federal fiscal year 1990 with a balance of more than $2.2 billion - over $1 billion in excess of the statutory maximum. That account, which is financed by employers' federal unemployment (FUTA) taxes, is dedicated exclusively to the administration of state unemployment insurance and job service programs and federal oversight of the programs. The account's year-end balance for federal fiscal year 1991 is projected at more than $2.5 billion - nearly $1.3 billion in excess of the statutory maximum.

By federal fiscal year 1995, the administration account's year-end balance is expected to climb above $3.6 billion, exceeding the maximum by almost $2.4 billion.

Yet, the funds necessary to do the job are not reaching the states because of federal budgeting decisions unrelated to the needs of the employment security system. Since the Unemployment Trust Fund remains part of the unified federal budget, deposits into the Fund that are not spent offset expenditures from other federal funds, including the federal general fund. Accordingly, constraining administrative outlays from the Fund produces "on paper" a lower federal deficit number.

The federal deficit exists, however, because obligations against the federal general fund consistently and substantially exceed federal general revenues. Holding dollars in the Trust Fund does not correct that fundamental imbalance. It simply masks the extent of the imbalance, at the direct expense of the people the Unemployment Trust Fund was established to serve.

The present constraints on the highly workload-sensitive unemployment insurance system are particularly troubling. Of the nine major federal entitlement programs run by the states, the unemployment insurance program is the only one for which administrative expenses are subject to the discretionary spending caps set by last fall's budget agreement.

The Unemployment Trust Fund should be used for the purposes for which it was established - not to camouflage the federal debt. To that end, the Trust Fund should be removed from the unified federal budget. At a minimum, the cost of running state unemployment insurance programs should be treated the same as the administrative costs of other state-run federal entitlement programs - as a mandatory rather than discretionary budget item.

The administrative funding problems now facing state employment security programs across the nation are very serious. We hope that, through your deliberations, you will be able to resolve those problems to the satisfaction of all interested parties. We are eager to work with you.

Thank you again for your time and attention, as well as for your continuing interest in the employment security system and the people it serves.

STATEMENT OF COL. PAUL W. ARCARI (USAF RETIRED)
DIRECTOR OF GOVERNMENT RELATIONS
THE RETIRED OFFICERS ASSOCIATION

Mr. Chairman, The Retired Officers Association (TROA), representing some 372,000 members (active duty, retired, Guard and Reserve) appreciates the opportunity to provide this statement of our position on unemployment insurance and the effects that the existing policies have on the men and women who separate from active duty with the Armed Forces.

Currently, an individual who is released from the military shall not be entitled to compensation for any week before the fifth week beginning after the week in which the individual was discharged or released, and the aggregate amount of compensation payable on the basis of federal service shall not exceed 13 times the individual's weekly benefit amount for total unemployment. We believe this is far too limiting, particularly in view of the law which allows unemployed civilians to be paid 26 weeks of benefits after a one week wait, and in a unique circumstance, the civilian can receive an extension of benefits for an additional 13 weeks.

We believe that the circumstances surrounding separation from military service militate heavily in favor of equalizing the waiting period and weekly payments. The principal catalyst for change is a recent congressional policy decision relative to the size of the military. Force structure reductions have been congressionally mandated and the Defense budget has been trimmed to the extent that many of our volunteer military members, many of whom expected to serve a career of 20 to 30 years, will be involuntarily released from active duty well short of those goals.

The President's budget for fiscal year 1992 proposes a total reduction in the Armed Forces of 95,173 military personnel by the end of 1991 and an additional reduction of 87,784 military personnel by the end of 1992. Although not all of these members will represent involuntary releases from active duty, it is obvious that the military services will, in the next few years, create a significant number of ex-servicemembers seeking employment in the private sector.

The transition from military service into the civilian market place is different from any other circumstance. In most cases, an ex-servicemember must move from a military base to a civilian community. Most will not own a residence in their hometown and many will temporarily live with parents. Separation from service and relocation in most cases results in the loss of two jobs and sources of income of the member and spouse. In a substantial number of cases there is also the loss of third income from the military member's "moonlighting" job.

The Retired Officers Association believes that the All Volunteer Force has been a tremendous success. For the most part, our servicemembers are eager, patriotic, dedicated Americans who will one day look back at their military service as perhaps the most significant event of their young lives. These very members will become the bedrock citizens of their communities and America's future leaders.

While we would not seek extra favor for these patriotic American servicemen and women, we do urge in the strongest possible terms, that they receive the same unemployment compensation entitlement as other Americans, 26 weeks of benefits after a one week wait, and in unique circumstances, an extension of 13 weeks. Ultimately, our Nation needs to do all in its power to assist ex-servicemembers to become tax-paying citizens, gainfully employed and contributing to our society.

STATEMENT OF THE SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON HUMAN RESOURCES
U.S. HOUSE OF REPRESENTATIVES
ON THE
UNEMPLOYMENT INSURANCE PROGRAM

MARCH 6, 1991

Mr. Chairman, the Service Employees International Union (SEIU) appreciates this opportunity to present our views concerning the unemployment insurance system. The SEIU represents nearly a million members. We are deeply concerned about the health of the unemployment insurance system, which millions of Americans rely upon for compensation and assistance in finding employment in difficult times. In addition to our concerns on behalf of unemployed workers, the SEIU speaks as the representative of those who are employed to staff the ES/UI system in California, Idaho, Maine, Massachusetts, Michigan, Missouri, New Hampshire, New York, Oregon, Pennsylvania, and Rhode Island. These employees witness firsthand on a daily basis the effects of a debilitated unemployment insurance program.

During this period of economic recession it has become increasingly apparent that serious damage has been done to the "safety net" of the unemployment insurance program. Those who lose their jobs and must call upon unemployment insurance offices often face long delays and reduced servicing. These problems reflect inadequacies in the manner in which the system is funded.

Perennially we have had to cope with insufficient funding based on inaccurate projections of unemployment levels. As a result, unemployment offices in the states have been unable to staff the program at adequate and stable levels. This year, as in recent years, we are witnessing curtailed hours, fewer and less convenient offices, reduced services, long lines, and delays in payments. The SEIU recommends the following to address this crisis.

1. Congress should establish a contingency reserve fund for UI administration. This fund should be available through administrative procedures, without further action by Congress, to address the recurrent problem of actual unemployment levels exceeding projections. The system would be supported without the uncertainty and disruptive effects of funding shortfalls that have taken such a toll on the program in recent years. Access to the reserve funds would be based on actual unemployment workload levels.

2. The Unemployment Trust Fund should be taken "off budget" so that the dedicated funds can be used for the purpose for which employers have been paying unemployment taxes. The Trust Fund is self-financing and may not be used for any purpose besides the unemployment program. Including the Fund in Gramm-Rudman-Hollings calculations has defeated the purpose of the dedicated tax and has brought harm to the integrity of the ES/UI system. We recommend that the pressure to restrict expenditures from this fund be removed by removing the fund from the budget process. The surplus of funds currently in the Unemployment Trust Fund could then be used for the vital purposes of the unemployment program.

In addition to the points set forth in this statement, the Service Employees International Union supports the statement of Mr. William Cunningham, of the AFL-CIO, which was presented to this Committee at hearings on February 6, 1991.

Thank you once again for this opportunity to express our concerns. We are grateful for your continued interest in the health of the unemployment insurance system and support your leadership in efforts to reform the system.

STATEMENT OF THE VERMONT RETAIL ASSOCIATION

On behalf of the membership of the Vermont Retail Association, I am submitting the following comments to the U.S. House of Representatives sub-committee on Human Resources of the Committee on Ways and Means.

We continue to strongly oppose the impoundment of federal Unemployment Tax Act (FUTA) taxes. These monies are paid by employers specifically to fund state administrative services of the Employment Services divisions. As part of the Gramm-Rudman-Hollings Act, Congress has sequestered a significant amount of this trust fund; and consequently, this action has left the state Employment Security department under-funded.

Not only have employers paid into this trust fund, but they have also been mandated to fund an extended surcharge to this tax.

Our membership recommends that the FUTA trust fund be removed from the unified budget and be recognized as a designated allocation to the state programs.

During the past five years, Vermont employers have assumed large State Unemployment Tax Act (SUTA) increases to insure than an adequate benefit fund would be in place when a recession hit our state. That recession has arrived, and our small state is experiencing a dramatic increase in the number of unemployment benefit claims; however, because of FUTA cutbacks, our state does not have adequate personnel and support to review and pay these benefits in a timely manner.

To depend on states to create replacement dollars for FUTA funding cutbacks, will further erode a lagging economy because it will reduce disposable income.

Our Green Mountain State is left helpless in this dilemma. The Federal Government insists on issuing delegated funding for Employment Service but that funding has been cut to an inadequate level. Because of the use of segregated dollars, our Commissioner cannot transfer dollars from other divisions to close the shortfall in another division.

The integrity of our state program is at risk. The members of the Vermont Retail Association implore you to immediately release these encumbered funds so that we may provide the service our employers deserve.

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